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GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

REPORT
OF
THE RURAL BANKING ENQUIRY COMMITTEE



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PART I
ELIMINARY

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CHAPTER I

INTRODUCTORY

The " Rural Banking Enquiry Committee " was appointed by the Government of India Resolution No. F.4 (196)FI/49, dated the 8th November 1949 which reads as follows :—

" In pursuance of the undertaking given in the Constituent Assembly during the debate on the devaluation of the rupee that steps will be taken to provide suitable governmental assistance for the extension of banking facilities in rural areas, the Government of India have decided to appoint a Committee with the following terms of reference :—

- (1) To consider the measures that can be immediately adopted for the extension of banking facilities in rural areas.
 - (2) To review in this connection the present arrangements for the management of the cash work at government treasuries and sub-treasuries including those where the work is at present managed by the Imperial Bank of India.
 - (3) To consider to what extent the extension of banking facilities will be facilitated by entrusting the cash work at government treasuries and sub-treasuries at places where the work is not at present being managed by the Imperial Bank of India to commercial banks and co-operative banks, and in this connection to consider :—
 - (a) the future management of such work in the Provinces of India as well as in the States and Unions whose financial integration with the Indian Union will take effect from the 1st April 1950 ; and
 - (b) to what extent the management of the cash work in government treasuries and sub-treasuries could be entrusted to either a new State-sponsored bank or to one or more of the existing commercial banks or co-operative banks ; and the conditions to be fulfilled by and the assistance to be given to, such banks.
 - (4) To make recommendation in regard to the banks which may now be handling the treasury work in the States and the Unions.
 - (5) To make any other recommendations.
2. The Committee will consist of :—

CHAIRMAN

Shri Purushotamdas Thakurdas.

VICE-CHAIRMAN

Shri C.H. Bhabha.

MEMBERS

1. Shri B. Venkatappiah, Secretary to the Government of Bombay, Finance Department.

2. Shri Ram Gopal, lately Joint Secretary, Ministry of Finance, Government of India.
3. Shri V.R. Sonalker, Deputy Managing Director, Industrial Finance Corporation.
4. Shri J.C. Ryan, Registrar of Co-operative Societies, Madras.
5. Shri N.D. Nangia, Deputy Chief Accountant, Reserve Bank of India (Member-Secretary).

3. It is expected that the Committee will start its work at an early date, and will submit its reports by the 15th February, 1950.

4. The headquarters of the Committee will be at Bombay. It may visit such places as it may consider necessary and take evidence for the purpose of the enquiry. The Government of India trust that the Provincial Governments, Commercial and Co-operative Banks, Chambers of Commerce, Associations and persons who are interested or acknowledgeable in subjects coming under the enquiry will afford the Committee all the assistance that it may require and will comply with any request for information that may be made. Persons who wish to offer suggestions in regard to any matter covered by the terms of reference are requested to send their views in writing addressed to the Member-Secretary of the Committee (by name) C/o Reserve Bank of India, Central Office, Post Box No. 406, Bombay, so as to reach him not later than the 30th November 1949."

2. The basic idea underlying the appointment of the Committee, that steps should be taken to extend banking facilities so as to reach the rural population, can be traced to two factors, namely, the depressed condition of the investment market and the situation created by the devaluation of the rupee.

Dealing with the first of these factors, the Hon'ble Minister of Finance for India, while inaugurating the National Savings Day at the National Savings Project Exhibition held in Poona on the 30th April 1949, remarked that, according to the opinion of some financial experts, there had been a perceptible change in the distribution of the national income in favour of the agricultural population which had to be educated in the value of investment both in its own interest and of the nation as a whole. He suggested that one way of mobilising rural savings for constructive purposes was through the co-operative credit movement, while the other was through the expansion of the banking system. He, therefore, appealed to leading banks to consider the possibility of extending their activities to rural areas.

Similarly in July 1949, the Central Advisory Council of Industries made the following recommendation as a means of promoting rural savings :

" In order to inculcate the habit of saving and investment in the agricultural and the upper wage earning classes, the small savings campaign should be intensified. A suggestion which the Council commends for examination by Government is that the Reserve Bank should select five or six leading commercial banks, and request each of them to establish about 200 branches in rural areas and lend them free of interest the cash balances to be maintained in such branches. It will be the duty of the banks

to cultivate the banking habit in the rural areas and for that purpose the bank in each area should be guaranteed freedom from competition for a period of ten years so long as it discharges its functions successfully."

The necessity of pooling the savings of the rural areas to make them available for increasing production became all the more urgent in view of the situation created by the devaluation of the rupee, and on the 5th October, 1949 the Hon'ble Finance Minister announced in the Constituent Assembly that the stimulation of investment through the extension of banking facilities in the rural areas by provision of suitable Government assistance would be one of the measures to be taken by Government to deal with the situation.

3. It was in pursuance of these ideas that this Committee was appointed. As may be noticed from the terms of reference, along with the question of extension of banking facilities, this Committee has been asked to review the arrangements for cash work at treasuries and sub-treasuries in the provinces and the arrangements for such work in the states. The Committee has also been called upon to make recommendations concerning banks now doing treasury work in the states. The necessity for a fuller examination of the arrangements in the states arose out of the recommendation of the Indian States Finances Enquiry Committee, 1948-49 which went into the question of federal financial integration. That Committee did not examine the banking and treasury arrangements in the states in detail, but in paragraph 26 of Part II of its report, it emphasized the necessity for early examination of this matter with a view to extending to the states the rules and regulations connected with the banking and treasury procedure in force in the provinces.

4. The Committee held its meetings on several occasions as follows :—

First meeting—21st and 22nd November 1949.

Second meeting—16th, 17th, 19th, 20th, 21st, 23rd and 24th January 1950.

Third meeting—6th, 7th, 9th and 10th February 1950.

Fourth meeting—20th and 21st February 1950.

Fifth meeting—3rd April 1950.

Sixth meeting—11th, 13th and 14th April 1950.

Seventh meeting—22nd, 27th and 28th April 1950.

Eighth meeting—11th, 12th and 13th May 1950.

All the meetings were held at Bombay. At its first meeting the Committee approved the questionnaire, which is printed as Appendix I to this report. In view of the limited time at the Committee's disposal, it was decided to fix the 21st December 1949 as the last date for the receipt of replies. At its second and third meetings the Committee considered replies from the various parties and memoranda submitted by the Committee's secretariat, and held discussions and recorded oral evidence. At its fourth meeting the Committee considered the interim conclusions to be communicated to the Government of India. At the fifth and sixth meetings the general principles and broad outlines of the report were approved. At the seventh and eighth meetings the Committee discussed and approved the draft of the report which was signed on the 13th May 1950.

5. About 3,000 copies of the questionnaire were circulated to scheduled and non-scheduled banks, to co-operative associations and provincial co-operative banks, to Registrars of Co-operative Societies, to the Central, Provincial and State Governments, to Chambers of Commerce, to the Universities and to several other institutions and individuals interested in the subject. Replies received were 227 in number; a list of the institutions and persons who replied to the questionnaire is given in Appendix II. We also received a number of suggestions in response to the communique issued by the Government of India announcing the appointment and the terms of reference of the Committee, and inviting suggestions.

6. The Committee had the benefit of personal discussion with the following gentlemen during its second and third meetings :—

- (1) Shri H.L. Kaji, J.P., I.E.S. (Retd.) President Indian Co-operative Union, Bombay.
- (2) Shri Manilal B. Nanavati, President, Indian Society of Agricultural Economics, Bombay.
- (3) The Hon'ble Shri V.L. Mehta, Finance Minister, Government of Bombay, Bombay.
- (4) Shri R.G. Saraiya, Chairman, Bombay Co-operative Banks' Association, and Chairman, Bombay Provincial Co-operative Bank Ltd., Bombay.
- (5) Shri V.P. Varde, Honorary Secretary, Bombay Co-operative Banks' Association, and Honorary Managing Director, Bombay Provincial Co-operative Bank Ltd., Bombay.
- (6) Shri N.K. Karanjia (Central Bank of India Ltd.) and Shri D.R. Thom (Bank of India Ltd.) representatives, and Dr. S.G. Panandikar, Secretary of the Indian Banks' Association, Bombay.
- (7) Shri C.V. Joag, Manager, Bank of Maharashtra Ltd., Poona.
- (8) Sardar Mohan Singh Managing Director, Bank of Patiala, Patiala.
- (9) Shri W.G. Groundwater, General Manager, Bank of Baroda Ltd., Baroda.
- (10) Shri D.L. Gupta, General Manager, Bank of Rajasthan Ltd., Udaipur.
- (11) Shri N.M. Chokshi, General Manager, Hind Bank Ltd., Calcutta.
- (12) Shri Satya Dev, General Manager, Bank of Bikaner Ltd., Bikaner.

Discussions were also held earlier at Calcutta by the Chairman, Shri Ram Gopal and the Member-Secretary, with Shri B.T. Thakur, General Manager, United Commercial Bank Ltd., and by Shri Ram Gopal and the Member-Secretary with Shri B. K. Dutta Managing Director, Comilla Banking Corporation Ltd., Dr. S.B. Dutta, Managing Director, Comilla Union Bank Ltd., Shri A.K. Roy, General Manager, Bengal

Central Bank Ltd., and with the representative of the Finance Department of the West Bengal Government, Registrar of Co-operative Societies, West Bengal, the Managing Director, West Bengal Provincial Co-operative Bank Ltd., and the Accountant General, West Bengal, and also with the representative of the Finance Department of the Assam Government, Registrar of Co-operative Societies, Assam and the Comptroller, Assam. Moreover, the Chairman discussed certain important aspects of our enquiry with the Auditor General, Shri V. Narahari Rao, and Sir Roderick Chisholm, the Managing Director of the Imperial Bank of India.

7. In view of the limited time allotted to the Committee to submit its report, it was not possible for the Committee to undertake extensive tours and it was, therefore, decided that Shri Ram Gopal, one of the Members, should visit some of the provincial headquarters and arrange to obtain information essential to our work, and also discuss the various problems with the representatives of the Provincial and State Governments. Accordingly, he visited Patiala, Gwalior, Indore, Calcutta, Patna, Allahabad, Lucknow, Jaipur and Rajkot. He also met the representatives of the Government of Punjab at New Delhi. A short tour to some places near Bombay to observe the actual working of treasuries, sub-treasuries, sub-post offices, and branch post offices, offices of the Imperial Bank and branches of the Bombay Provincial Co-operative Bank Ltd., was also undertaken by Shri Ram Gopal and Shri V.R. Sonalker, Members of the Committee, and the Member-Secretary, on the 12th and 13th January 1950.

8. According to the Government resolution, we were expected to submit our report by the 15th February, 1950. In view of the delay in receipt of the replies to the questionnaire, the necessity to analyse the replies received and the time taken to collect information regarding turnover at non-bank treasuries and treasury arrangements in the states, it was, however, found that it would not be possible for the Committee to submit its report by that date. The Committee, therefore, proposed to the Government of India that the time allowed for the submission of the final report should be extended to the end of April 1950, it being agreed that a brief report containing the interim conclusions of the Committee would be submitted by the last week of February. A report containing the interim conclusions was accordingly sent to Government on the 22nd February 1950.

9. We are thankful to all those who appeared personally before us and those who, in response to our questionnaire, or special requests for information, gave us the benefit of their knowledge and views or supplied valuable data essential to our enquiry. Many of those who replied to our questionnaire were also kind enough to send us six copies of their replies to facilitate our work, and some were good enough to furnish us with detailed notes and memoranda on special problems. We are thankful to the various Ministries of the Government of India, the Governments of the Provinces and States and to the Accountants General who were good enough to furnish us with the data required by us.

10. We are grateful to the Reserve Bank of India for the assistance rendered and the various facilities placed at the disposal of the Committee and its secretariat, without which it would have been impossible for the

Committee to function or finishable its work in so short a period. We were to draw freely upon the information and specialized knowledge available with the various departments of the Bank as and when required.

11. The Chairman, Vice-Chairman and Members of the Committee place on record their high appreciation of the hard work put in by Shri N. D. Nangia, Member-Secretary, of the Committee, in collecting a mass of evidence in dissecting it, in assisting in the discussions and finally in drafting the report. The Vice-Chairman and Members of the Committee also wish to express their gratitude to the Chairman for his uniform courtesy and patience, and particularly for the ripe experience and able guidance he brought to bear on the deliberations of the Committee.



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CHAPTER II

SCOPE AND OBJECTS OF THE ENQUIRY

12. According to our terms of reference, our enquiry is chiefly concerned with the consideration of (a) the measures, which can be taken immediately for extending banking facilities to rural areas, (b) the existing arrangements for cash work at Government treasuries and sub-treasuries, including those managed by the Imperial Bank of India, and (c) the future arrangements for such work in the provinces as well as in the States whose financial integration has taken effect from the 1st April 1950, with special reference to the possibility of entrusting the work to a bank or banks.

The expression "cash work" in the terms of reference has obviously been used to distinguish such work from the "accounts work" carried on by Government treasuries and sub-treasuries and denotes not merely the receipt and payment of cash on Government account but the whole of that portion of work done at treasuries and sub-treasuries in which the handling of cash is involved, including the work incidental to the management of currency chests and small coin depots kept at treasuries and sub-treasuries. The connection between the problem of extending banking facilities and the arrangements for cash work at treasuries and sub-treasuries is explained by (a) the possibility of entrusting such work to banks, by which they would be encouraged to open offices in a number of places where such offices do not exist at present, and (b) the fact that, in any case, satisfactory treasury arrangements (as we shall have occasion to explain), are an essential prerequisite to the development of banking facilities. It may, however, be remarked that although these two aspects of our enquiry are thus interconnected, they need not be considered wholly interdependent, and either of them can be treated, to some extent, as an independent problem.

13. Before we proceed to discuss the various aspects of the problems before us, it is necessary to clarify certain matters regarding the scope of our enquiry. One of these is the interpretation of the expression "banking facilities", its significance in relation to the people of the rural areas, and the primary object which the extension of banking facilities is expected to serve in the immediate future. The expression "banking facilities" connotes a variety of services, but, as specified in our questionnaire, for the purpose of our inquiry we consider these as referring primarily to facilities for—

- (a) receipt of deposits of various kinds,
- (b) making of advances,
- (c) transfer of funds, and
- (d) safe custody of valuables.

Among these, the most important from the point of view of the rural population, obviously, are the acceptance of deposits and the making of advances. The other services are less important, although their provision and increased use would be desirable.

14. We have been asked to consider "the measures that can be *immediately* adopted for the extension of banking facilities in rural areas". We are aware that in a matter like the development of banking, which is a gradual process, it would be very difficult to separate long-term and short-term considerations, and also that under the conditions obtaining in our country, owing to difficulties of an administrative or practical nature, many measures that would normally be regarded as "short-term" would in fact take a long time to be implemented. A distinction has, however, to be made, and in accordance with our terms of reference, our proposals must necessarily be related to the immediate and urgent needs of the situation, that is to say that they take note of the existing financial, economic and administrative conditions, and are capable of being put into operation* without great difficulty, although the long-term aspects of the problems and of our proposals should not be lost sight of.

15. Taking these factors into account, we believe that the primary object of the extension of banking facilities to rural areas should at present be to stimulate and mobilise rural savings in order to help the Government's anti-inflationary programme as well as to provide financial resources for national development to the maximum extent possible. It has been represented to us by several people that the problem of rural banking is primarily that of devising a satisfactory machinery for the supply of rural credit. While we appreciate the importance of this problem, and recognize that no enquiry regarding the extension of banking to rural areas can afford to ignore it, the emphasis must, in the context of the present economic situation, be on facilities for the mobilisation of rural savings. The problem of rural credit is, on the other hand, one of long standing, and has been considered exhaustively by various authorities from Nicholson's famous report on "Rural Banks" down to very recent publications. The solution of this problem would require long-term planning, and probably many more years of effort.

16. Another question concerning our enquiry was raised by the Bombay Shroffs' Association, who suggested that as Shroffs and indigenous bankers constituted the largest and most elastic type of machinery for the provision of "banking facilities" to the rural people, the entire question of their functions and role in the banking system, along with their relations with the Reserve Bank of India, should be examined by us. We duly considered this suggestion but decided not to go into it in detail, as we felt that the intention of Government was that we should consider only such measures as would assist the extension of banking facilities through organized banking institutions. The Government of India, to whom the matter was referred for clarification, have also confirmed this to be the correct view. The problem of linking indigenous bankers with the organized banking system of the country has been a long standing one, and the several efforts made by the Reserve Bank in accordance with the recommendations of the Central Banking Enquiry Committee to bring them into direct or indirect relationship with the Reserve Bank have not proved successful.

17. The Ministry of Industry and Supply proposed that we should consider the question of financing cottage industries. In their memorandum' to the Ministry of Finance, they suggested that this Committee might also be requested to consider the question of financing small-scale industries in rural areas, either through co-operative banks or through special credit institutions that may be established for the purpose, as such facilities were considered essential for the development of cottage industries. We examined

this proposal carefully, but felt that its acceptance would considerably extend the scope of the terms of reference of this Committee, necessitating the examination of several wider issues and collection of additional data. We have, therefore, not examined this question.

18. Our report is divided into six parts, of which the first deals with preliminary matters and the last contains a summary of conclusions and recommendations. In the other parts, which embody the results of our enquiry, we have followed a scheme which deals with our terms of reference not exactly in the order in which they are stated, but divided into four convenient groups: (i) The extension of banking facilities, arising mainly out of our first term of reference ; (ii) Treasury arrangements in the provinces, dealing mainly with matters arising out of the second and third terms of reference ; (iii) Treasury arrangements in the states, arising out of the third and fourth terms of reference, and (iv) the question of a State-sponsored bank, which has to be considered in relation to provinces as well as to states. In view of the inter-connection between the different terms of reference, it was felt that this would be a convenient and satisfactory way of dealing with the subject.

19. In this Report, where we use the expression "states" we should generally be understood as referring to Part B States and where we use the expression "provinces" we should be understood as referring to the remaining constituent units of the Indian Republic, namely Part A, Part C and Part D States.



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PART II
EXTENSION OF BANKING
FACILITIES



CHAPTER I

PRESENT POSITION OF BANKING FACILITIES

20. *Institutions offering banking facilities.*—Banking facilities are at present available to the public in India from a variety of institutions some of which are not 'banks' in the usual sense of the term, but nevertheless play an important part in collecting savings, making advances, remitting funds and performing other services. Before proceeding to consider the scope for the extension of banking facilities, it would be desirable to state briefly the present position of all such institutions, in the following order :—

- (1) Treasuries and sub-treasuries ;
- (2) Imperial Bank of India ;
- (3) Other commercial banks ;
- (4) Indigenous bankers and institutions ;
- (5) Co-operative banks ;
- (6) Co-operative societies ;
- (7) Post office savings banks ; and
- (8) Insurance companies and societies.

(1) *Treasuries and Sub-treasuries.*—Although primarily concerned with the receipt and payment of Government dues and the safe custody and accounting of Government moneys, these institutions perform certain banking and other functions. Treasuries and sub-treasuries having custody of currency chests and small coin depots meet the requirements of banks and the public for fresh currency and provide facilities for exchange of notes and coin and for transfer of funds between the various centres in the country. Except at places where there are branches of the Reserve Bank or the Imperial Bank, treasuries, though not sub-treasuries, provide to the holders of Government promissory notes, facilities for safe custody of securities. In certain provinces and states, as a measure of assistance to the co-operative institutions and to save them the expense of making elaborate arrangements for the safety of their treasure, treasuries and sub-treasuries also receive from such institutions their iron safes and chests for safe deposit. Though the purely banking functions of treasuries and sub-treasuries are limited, some of the functions they perform are in the nature of valuable aids to the functioning of banks in the surrounding areas.

(2) *Imperial Bank of India.*—Formed by the amalgamation of the three Presidency Banks in 1921, the Imperial Bank of India is administered through three Local Boards at Calcutta, Bombay and Madras with powers of general superintendence vested in a Central Board. Till 1935, the Imperial Bank acted as the banker to Government and, subsequently on the inauguration of the Reserve Bank it became the sole agent of the Reserve Bank at all places

in the provinces where there was a branch of the Imperial Bank, but where there was no office of the Reserve Bank. The connection with Government and the Reserve Bank has no doubt meant the assumption by the Imperial Bank of a number of special responsibilities, necessitating certain restrictions on its business, particularly in respect of loans and advances, but it has also given to the institution a special status and conferred on it several direct and indirect benefits. The Bank has attained a unique status in the world of Indian banking, and by 1946, had established 443 offices, distributed all over the country. In 1949, i.e., after partition, the total number of its offices in the Indian Union stood at 377. The Bank has established traditions of soundness and efficiency, and has been playing an important part in facilitating the development of trade, industry and other economic activities in the country. Its demand and time liabilities in India on the 31st December 1949 amounted to Rs. 200 crores, as compared with the total deposits of all other scheduled banks (including the exchange banks) of Rs. 633 crores.

(3) *Other Commercial Banks.*—These consist of (a) the exchange banks and (b) the Indian commercial banks which may be further divided into scheduled banks and non-scheduled banks. The Imperial Bank of India and the exchange banks are also scheduled banks, but they are being treated here as separate categories owing to their special position and peculiar characteristics.

(a) *Exchange Banks.*—There are 15 exchange banks functioning in India at present, all of them being branches of concerns established outside India. They are mainly engaged in foreign exchange business and the financing of foreign trade, and their offices totalling 65 are mostly situated at port centres and in the larger cities. Although some of them have of late been taking increasing interest in the financing of internal trade at the centres where they are established, they have no appreciable contact with the rural areas of the country.

(b) *Scheduled Banks.*—Under this category fall banks included in the Second Schedule to the Reserve Bank of India Act, which primarily means that each of them has a paid-up share capital and reserves of an aggregate value of Rs. 5 lakhs or more, and is a company or corporation incorporated under the Indian Companies Act, or under any law in force on any place outside the provinces of India. In accordance with the provisions of section 42 of the Reserve Bank Act, every "scheduled bank" has to keep deposited with the Reserve Bank 5 per cent. of its demand and 2 per cent. of its time liabilities, and according to a recent amendment of that section a "scheduled bank" has also to satisfy the Reserve Bank "that its affairs are not being conducted in a manner detrimental to the interests of its depositors". Excluding the Imperial Bank and the exchange banks, there were 83 scheduled banks in 1947, with a total of 3,025 offices. That this represented a phenomenal growth of branch banking in the country during and after World War II is apparent from the fact that, in 1938, there were only 32 scheduled banks with 677 offices. While this was the position in undivided India, the position as on the 30th September 1949 shows that there were 84 scheduled banks in India alone with a total of 2,500 offices. During the same period there was a considerable expansion in their deposits which increased from Rs. 92 crores in 1938 to Rs. 651 crores in 1947. Thereafter a decline is noticeable, partly

due to the partition of the country, and partly to other causes, and the deposits of these banks, according to the weekly returns submitted to the Reserve Bank of India, at the end of December 1949 stood at Rs. 475 crores. (Ref: Tables 1 and 2 in Appendix III.)

(c) *Non-scheduled Banks.*—Reliable statistics are not available to enable a comparison of the pre-war and present position of commercial banks other than scheduled banks. From Table 1 in Appendix III which contains whatever information is available, it would appear that in 1939, there were 243 non-scheduled banks with paid-up capital and reserves of Rs. 50,000 and over, and they had 673 offices. In 1945, there were 39 such non-scheduled banks with 2,381 offices, by 1947, the number of these banks had increased to 403, while the number of their offices stood at 1,991. At the end of 1947, the total deposits with them amounted to Rs. 91 crores. According to information available with the Reserve Bank, as on 30th September 1949, there were in all 655 non-scheduled banks, including those with paid-up capital and reserves below Rs. 50,000 having 2,219 offices. In view of the different bases on which the figures have been compiled, an exact assessment of the growth of these banks is not possible, but even from the available data, it would not be wrong to conclude that there was a phenomenal increase in the number of offices of these banks during the war, and that at present nearly half the total number of commercial bank offices in the country are accounted for by non-scheduled banks.

Although it would not be correct to state that all scheduled banks are strong and are run on sound lines, and that all non-scheduled banks are weak, it would not be wrong to conclude, from the statistics given above, that a substantial part of the growth of offices of commercial banks in recent years is accounted for by banks with comparatively small resources, several of which will probably find it difficult to function when the provisions of the Banking Companies Act are fully enforced.

Taking commercial banks as a whole (including the Imperial Bank and exchange banks) there were as at the end of 1947 in all 5,532 banking offices. The exact position after partition is not known since the correct number of the offices of non-scheduled banks is not available; but so far as known at present, these banks had amongst themselves about 5,100 offices.

An analysis of the regional distribution of these offices on the 31st December 1949 shows that Madras and West Bengal have the largest number, namely 1,124 and 720. Bombay and Uttar Pradesh following closely with 630 and 560 offices respectively. Other provinces are served comparatively by a small number of banking offices. Among the States which have a total of 942 offices, the United State of Travancore and Cochin stands out conspicuously with 503 offices. It is also worth noting that the offices of scheduled banks are largely concentrated in Madras, Uttar Pradesh and Bombay while those of non-scheduled banks are to be found in fairly large numbers in Madras, West Bengal and United State of Travancore and Cochin. (Ref: Table 3, in Appendix III).

(4) *Indigenous Bankers and Institutions.*—Among the agencies which provide banking facilities mention must be made of indigenous bankers and money-lenders, who have throughout played a notable part in financing internal trade and agriculture. No reliable statistics of such persons or of the

magnitude of their operations are, however, available, nor is it possible to distinguish clearly between bankers or shroffs and money-lenders. Although these persons will continue to play a significant role in the credit structure of the rural areas for years to come, it is apparent that their importance and activities are generally on the decline, particularly due to the stringent provisions of acts for the regulation of money lenders and debt relief, and legislation affecting land tenures passed by several provinces. Many of them appear to have restricted their activities, or withdrawn from the field altogether, and taken to urban trade and investment.

Of the institutions engaged in promoting savings and functioning as mutual loan societies, a reference may also be made to "Nidhis" and "Chit Funds". On an organized scale they exist mainly in South India, and their sphere of activities is said to be confined mostly to the urban classes, particularly people belonging to the lower income groups.

(5) *Co-operative Banks*.—Co-operative banks form an important part of the Indian banking system, and are specially well developed in some provinces, such as Bombay and Madras. These banks can be classified into (a) provincial, (b) central banks and banking unions and (c) urban banks.

(a) *Provincial Co-operative Banks*.—The provincial co-operative banks are apex institutions for the co-operative financial structure in each province or state. Their main function is to act as bankers to co-operative institutions, including the urban and central banks, to keep their balances and reserves, to provide the financial accommodation needed by them and to act as "balancing centres" and co-ordinating agencies for the entire region concerned. These banks are registered under the Co-operative Societies Act and are generally managed by boards of directors elected from amongst the individual shareholders as well as the affiliated central banks and other co-operative institutions, the latter element being generally predominant. Provision is also made in some cases for the representation of the Provincial/State Government concerned by one or more nominees on the board, the Registrar of Co-operative Societies being often an *ex-officio* director. Except in the province of Bombay, where the provincial bank has established 56 branches in ten districts to deal directly with societies and individuals, the provincial co-operative banks do not have branches but deal mainly with their members, namely, the affiliated central banks and other co-operative institutions. In the cities where they function, the provincial co-operative banks undertake many banking functions, such as the acceptance of various kinds of deposits from members as well as non-members, the issue of drafts and the collection of bills, cheques and hundis; in the case of Bombay loans are also made to individuals, who are enrolled as "nominal members", on the security of produce, fixed deposits, Government securities, etc. The funds of these bank mainly consist of share capital, deposits from members and the public, and also amounts received from Government either in the form of contributions to share capital or by way of loans for special purposes. Provision exists for accommodation from the Reserve Bank under section 17 of the Reserve Bank of India Act for financing provincial banks which in turn finance central co-operative banks and of late some of the provinces appear to be making use of this facility on a fair scale. Sometime arrangements are also made for accommodation from

commercial banks, such as the Imperial Bank of India. The progress and present position of the provincial co-operative banks can be seen from the following table :—

Operations of Provincial Co-operative Banks

	1939	1946	1947*	1948*
1. Number of banks	10	13	11	11
2. Number of members :				
(a) Individuals	4196	7728	6273	6508
(b) Banks and Societies	19080	20057	8106	8505
	(In crores of rupees)			
3. Owned funds	1·997	3·03	2·53	2·60
4. Loans from others	0·15	0·24	1·55	1·39
5. Deposits	10·73	21·63	17·89	20·06
6. Working capital	12·85	24·90	21·97	24·06
7. Fresh loans made during the year	7·33	16·58	24·68	22·73
8. Loans outstanding at the end of the year	6·64	6·54	9·95	8·96

*Figures for the Indian Union only.

During the war and after, these banks have, on the whole, made good progress, substantial increases having been achieved in deposits and working capital. The provincial co-operative banks of Madras and Bombay appear to be in a particularly strong position, while those of West Bengal and Punjab have been adversely affected by partition, on account of some of their assets having been locked up in Pakistan. The Bombay Provincial Co-operative Bank has recently been reorganized and strengthened so as to enable it to finance all creditworthy agriculturists in the province, either through its own branches or through the central banks.

(b) *Central Co-operative Banks and Banking Unions.*—These banks act as the financing agencies for co-operative societies, the area of their operations being generally a district or a part of it. Their membership is made up of societies so well as individuals, except in the case of banking unions whose memberships is confined to societies. Their main function is that of financing the affiliated societies and their funds are largely drawn from deposits collected predominantly from non-members. At their head offices, and at the places where they have branches, they undertake several banking functions, just as the provincial banks do. The progress of central banks in recent years and their present position can be seen from the following table:

Central Co-operative Banks and Banking Unions

	1939	1946	1947*	1948
1. Number of Central banks	594	601	446	448
2. Members:—				
(a) Individuals	81,347	80,423	98,956	72,880
(b) Societies	96,106	1,18,094	83,499	86,892
	(In crores of rupees)			
3. Owned funds	6·65	8·45	6·17	6·49
4. Loans from others	4·43	3·96	4·59	5·35
Deposits	18·34	32·66	27·80	28·39
Working capital	20·42	45·07	38·57	40·22
5. Loans outstanding	19·93	20·36	20·22	21·13

*Figures for the Indian Union only.

Thus, in spite of the partition, there were as many as 448 central co-operative banks in 1948. (According to the information supplied to the Committee, the number of offices of provincial and central banks in the Indian Union is at present 698 of which 568 are in the provinces.) During the war and after, the central co-operative banks in general, strengthened their financial position, and were able to supply not only the finance required for agricultural credit, but also for several non-credit activities such as procurement and distribution of consumers' goods, manure and agricultural implements, and development of small-scale industries launched upon by the co-operative movement. This is, however, true only of some provinces, and it cannot be stated that central co-operative banks in all provinces are in a good condition. In Bombay and Madras, their position is strong. In Uttar Pradesh also their present position may be regarded as generally satisfactory. In Madhya Pradesh, out of 35 banks, 14 have been under a scheme of rehabilitation since 1940-41; by the 30th of June 1948, 12 of these banks had paid off the dues of their creditors, and most of them are reported to have since resumed their normal working. In Bihar, where all central banks have been under a rehabilitation scheme, the Provincial Co-operative Bank has been reorganized on the model of Credit Agricole D'Egypte and advances in the shape of manure and seed are being made either through the reconstructed central banks, or through depots established by the Provincial Co-operative Bank, of which there were 114 in 1947-48. In Assam, there were 18 central co-operative banks to finance rural credit societies. A scheme of reorganization, according to which the Assam Co-operative Apex Bank with 18 of its own branches would finance a thousand primary "trading co-operatives" has been inaugurated recently. In the Punjab, central Co-operative banks were in a progressive and satisfactory condition before partition, but their position has been disturbed, and they have to be reconstructed after the recovery of about Rs. 3 crores of assets from West Punjab. In Bengal, where the condition of the provincial and central banks was not quite satisfactory even before partition, the difficulties have been accentuated by the frozen character of their dues in East Bengal. Orissa, which was working a rehabilitation scheme under a newly established Apex Bank with Government support, has made some progress, but even now the central banks have to be considered as being in an infant stage. In Mysore, where the co-operative movement had made some progress, the central banks are in the process of being wound up, and the movement is being reorganized under the aegis of the Apex Bank. In the rest of the States, the co-operative banks do not appear to have made much headway.

From this brief review, it is apparent that a sound and satisfactory co-operative banking structure exists only in a few regions, particularly in Bombay and Madras. The structure elsewhere is in a process of reorganization, consolidation or rehabilitation, and it is as yet too early to say what the outcome of the efforts now being made will be. Though some have expressed misgivings about the outcome of such efforts. We see no reason why, given favourable circumstances, Government support and popular co-operation, the structure should not develop on right lines in course of time.

c) *Urban Co-operative Banks.*—In order to provide banking facilities to townsmen of small resources, urban banks or non-agricultural co-operative credit societies have been organized in large numbers all over the country. The majority of these institutions function as credit societies for urban salary-earners, employees or petty traders. The sphere of their operations is usually

confined to the towns in which they are situated, although they are permitted to deal with agriculturists residing within their jurisdiction, and in some provinces, also with rural societies in their areas where a central-bank is not established. These banks undertake several banking activities and function more or less like the commercial banks. Some of the urban banks in Bombay and Madras have attained a sound financial position and employ competent secretarial staff. Since many urban banks are situated in small towns in the heart of the countryside having some agricultural population, these banks are, to some extent, serving the banking needs of the rural areas also. The position of urban banks in India in 1947-48 can be seen from the following table :—

*Operations of Urban Co-operative Banks, 1947-48**

(In lakhs of Rupees.)

							Loans outstand- ing at the end of the year
Number	Member- ship	Owned Capital	Deposits	Loans	Working capital		
Madras	210	1,84,557	107.14	378.41	89.87	575.42	323.89
Bombay	118	1,16,379	150.48	748.07	27.39	1014.67	379.70
Other areas	732	3,97,339	306.68	777.78	25.79	1100.27	774.74
All India	1060	6,98,275	564.30	1904.26	143.05	2690.36	1478.33

*Figures are approximate.

The number of urban banks in Madras and Bombay showed further increase during 1948-49. At the end of that year Madras had 217 and Bombay 135 full-fledged urban banks receiving all kinds of deposits and maintaining fluid resources. In addition, Madras had 246 other institutions which can also be classified as banks, except that they do not maintain fluid resources.

(6) *Co-operative Societies*.—Probably the largest part of the structure providing banking facilities to rural areas consists of rural co-operative societies of which there are many types, co-operative effort having extended to practically every type of human activity. Of the several types of societies—their nomenclature differs from region to region—those which can be said to be predominantly of the banking type, being engaged in making advances to their members and receiving deposits from them, are (a) agricultural credit societies, (b) multi-purpose societies and (c) marketing (or loan and sale or purchase and sale) societies; other societies such as industrial societies; cane growers' societies, consumers' societies, milk societies and unions, housing societies, etc. also make loans to their members or member societies, but they cannot be regarded as providing "banking facilities" as such, the lending of funds in their case being largely incidental to their other activities. Rural credit and multi-purpose societies have been regarded as "miniature" banks for villages, and many are convinced that these are the only appropriate organizations through which banking facilities can reach the vast mass of the rural population.

Agricultural credit societies constitute about 66 per cent. of all primary co-operative societies in India, their total number being approximately

85,260 in 1947-48. The following table gives some important features of their operations :—

<i>Agricultural Credit Societies</i>		1947-48
1. Number of societies		185,260
2. Membership		134,82,852
	(In crores of rupees)	
3. Owned capital		11.35
4. Deposits		3.04
5. Borrowings from others		9.47
6. Working capital		23.87
7. Fresh advances during the year		10.44
8. Recoveries		8.15
9. Outstandings		16.02
10. Overdues as percentage of outstandings		24.5%

Taken as a whole, the structure of rural credit societies, despite partition, can be said to be impressive, and owing to the changes brought about by the war, improved in certain respects, particularly in the reduction of overdues, which stood at about 47 per cent. in 1938-39. Their ability to attract deposits and stimulate thrift has, however, continued to be low, deposits at present being only Rs. 3.04 crores. Fresh advances during 1947-48 were of the order of Rs. 10 crores, as compared with Rs. 6.7 crores for agricultural credit societies for all India in 1938-39. The improvement noticed above has, however, by and large, been confined to the provinces of Madras and Bombay* and outside these two provinces the condition of agricultural credit societies leaves much to be desired; this was also the basic reason for the weak condition of the financing agencies in most of the regions already referred to, necessitating schemes for reorganization, consolidation and rehabilitation dating from the period of the depression. Their difficulties may be ascribed chiefly to over-lending to members with inadequate attention to repaying capacity, with the result that much of the finance has remained frozen. One direction in which reorganization is being attempted is in the establishment of multipurpose co-operative societies, either for a village or a group of villages, which would be in a position to attend to several important economic aspects of the agriculturists' life, and employ competent staff in view of their extended scale of operations. In Madras, the credit societies themselves are being encouraged to take up allied functions permitted by their bye-laws such as the supply of agricultural and domestic requisites and the marketing of produce, although multipurpose societies are also being organized where there is a demand for them. In almost all other provinces, emphasis at present is on the organization of multipurpose co-operative societies.

*The position of the agricultural credit societies in Madras and Bombay on 30.6.1949. was as follows :—

	No. of societies	Membership	Owned capital	Deposits	Other borrowings	Working capital	Outstandings	Percentage of overdues to outstandings
								(In crores of rupees)
Madras	13,740	10,27,876	2.67	0.53	5.37	8.57	6.59	18.3
Bombay	6,147	3,81,018	2.47	0.61	2.42	5.50	3.40	23.6

Figures for Bombay include multipurpose societies also.

The following table gives the latest available figures regarding such societies:

<i>Operations of Multipurpose Societies</i>		<i>1947-48</i>	
1. Number of societies		18,162	
2. Number of members		5,77,386	
3. Working capital		279.28	} In lakhs of rupees.
4. Purchase of goods		163.13	
5. Sale of goods		351.87	
6. Deposits		33.38	
7. Fresh advances during the year		197.24	
8. Loans outstanding		170.63	
9. Overdues as per cent. of outstandings		12.77	

Considering that this line of development is very recent, these figures are impressive, and are a good augury for the efforts at reorganization being made in several regions*.

(7) *Post-Office Savings Banks*.—The post office savings banks are another widespread agency available for mobilising small savings. As an agency of Government, they enjoy the confidence of the people who are convinced of the security of their funds. At the end of March, 1949, there were 26,760 post offices (including offices managed by extra-departmental agents) out of which 9,465 offices were doing savings bank work. Table 5 in Appendix III gives the distribution of post offices and savings banks according to postal circles, from which it can be seen that the largest number of postal savings banks are found in Madras, Bombay, Uttar Pradesh, Madhya Pradesh and West Bengal circles. At the end of March 1949, out of 26,760 post offices, 22,044 were in rural areas, although the large majority of them are probably being managed by extra-departmental agents. In general, the policy of the postal department has been to open a post office for every close-knit village unit with a population of 2,000 or above, but savings bank work is entrusted generally to departmentally managed offices, and to extra-departmental agents only where the department is satisfied as to the financial status, standing and character of the agent. A savings bank is allowed to be opened provided it is anticipated that the number of accounts to be maintained at the bank will not be less than 20.

Of the 9,465 savings banks referred to above, 6,401 were in the rural areas, covering about 40 per cent., of villages with a population of 2,000

*The three provinces which have the largest number of multipurpose societies are Uttar Pradesh, Bombay and Madhya Pradesh, and the following table gives details of their operations in 1947-48:—

	No. of societies	Members	Working capital	Purchase of goods	Sale of goods	Deposits	Fresh advances	Loans outstanding	Percentage of overdues to outstandings
(In lakhs of rupees)									
U.P.	15,894	385,103	167.17	..	17.63	9.86	114.52	126.71	11.3
Bombay	655	54,142	57.57	..	139.50	11.92	25.14	21.14	16.3
Madhya Pradesh	653	61,075	16.00	132.00	149.00	2.00	40.00	3.00	..

By the 31st December 1949, the number of multipurpose societies in U.P. had increased to 21,578.

or more in the country. An idea of the progress of rural post office saving banks in recent years is given by the following figures :—

*Rural Post Office Savings Banks**

	1943	1949	Increase
1. Number of post offices doing savings bank work.	5,512	6,401	889
2. Number of accounts current in these offices.	7,21,462	11,96,434	4,74,972
3. Balances in the accounts at these offices.	17,71,11,550	63,14,38,778	45,43,27,228
4. Average balance per account	245	528	283

These figures, which reflect considerable progress, are significant, and indicate that, given the necessary effort, the agency of the post offices can be successfully developed to collect the savings of the rural people to an increasing extent. The increase in the balances in the accounts with the post offices is particularly gratifying in view of the recent decline in deposits with the scheduled banks, although in interpreting the post office savings banks' figures an allowance must be made for the transfer of accounts from East Bengal to West Bengal and from the West Punjab to East Punjab consequent on the partition of the country. Figures showing the progress of post office savings banks are given in tables 6 and 7 in Appendix III.

(8) *Insurance Companies and Societies.*—Although insurance companies do not transact banking business as such, their transactions are in certain respects akin to banking and they form an important channel for the mobilisation of the people's savings. They collect premia which have certain features of terms deposits, make loans to policy-holders and invest their funds in Government securities, treasury bills, and other types of securities such as debentures of land mortgage banks and other banks, and in real estate, activities which are in many ways analogous to those of banks.

As on the 7th October 1949, the total number of insurance companies operating in this country was 339 of which 234 were Indian companies. There were also 98 provident societies†. During the year 1948, the total premia receipts of all Indian insurers were Rs. 27·59 crores, which is even higher than the pre-partition figures of Rs. 25·59 crores in 1946 for undivided India.

Although the sum-total of the operations of the insurance companies is of some magnitude, and they have made considerable progress during the last ten years, they have not, as yet been able to approach the rural population or tap their savings, their sphere of operations at present being mainly confined to the urban population. This is probably due to the uncertainty of rural incomes as well as the high costs of issuing small policies. Lack of facilities for the collection and remittance of premia may also be one of the reasons.

There are, however, some co-operative insurance societies, which have been established mainly to cater to the needs of persons with limited

*Source Information supplied by the Director General, Posts and Telegraphs,

†Indian Insurance Year Book, 1949.

means, which issue policies for small amounts, usually Rs. 500 each. Because of their contacts with co-operative banks and societies, it is felt that these societies may be able in due course to extend insurance to rural areas.

21. *An overall assessment of the present position in respect of banking facilities.*—The above description and survey of institutions at present providing banking facilities to the people should enable us to draw certain conclusions of a general nature regarding the spread and availability of such facilities. As compared with the position when the Central Banking Enquiry Committee reported, and even as compared with the position before the war, it is apparent that a very substantial expansion of the commercial banking system has taken place. Including the Imperial Bank of India, the number of Indian commercial banks with capital and reserve of Rs. 5 lakhs or more was only 29 in 1928. In 1939, the number of Indian scheduled banks was 40 which rose to 84 in 1947, while the number of their offices increased from 1,179 in 1939 to 3,462 in 1947; the post-partition figure being about 2,877. The offices of smaller (non-scheduled) banks, for which no comparative data are available, appear also to have substantially increased, their present number being about 2,200. In addition, a large number of co-operative banks have come into existence. The provincial and central banks have about 698 offices, while there are in the two provinces of Bombay and Madras alone at least 352 well organized co-operative urban banks. Savings bank facilities are being provided by 9,465 post offices of which 6,401 are in the rural areas. There are also 1,03,422 co-operative credit and multipurpose societies 'providing credit facilities in the villages (1947-48), and 272 primary land mortgage banks and 5 central land mortgage banks providing long-term credit to agriculturists. As against 339 towns out of 2,300 served by banks in 1928, as reported by the Central Banking Enquiry Committee, 1,506 towns out of a total of 2,448 are now being served by banks.

This is an impressive record for the banking system of the country, but it must be admitted that, although from the point of view of numbers there has been a substantial advance, not all the expansion that has taken place in recent years has been of a healthy type. A part of it, at any rate, particularly in the field of commercial banking, represented careless, and even unscrupulous, expansion of branches by banks having inadequate financial resources and following unsound methods of working, with the result that even during the period from 1941 to 1946, when circumstances were generally favourable to the development of banking, as many as 254 joint stock banks went into liquidation. The position in this respect was aggravated later when after partition the favourable economic factors ceased to operate, and another 114 banks closed their doors during the years 1947, 1948 and 1949. The failure of such a large number of banks is, by no means, an indication of the unsoundness of the banking system in general. With a few exceptions, the banks which went into liquidation during the years 1941-1949 were small non-scheduled banks; their total paid-up capital was Rs. 3.23 crores, which gives an average of Rs. 87,000 per bank, and their field of activity was largely localized. It was, however, felt that some machinery should be evolved to keep a check on the unhealthy and excessive growth of banks and to supervise their working. Accordingly, to safeguard the interests of the depositing public, the Reserve Bank of India was empowered under the Banking Companies (Restriction of Branches) Act in 1946, to control the opening of branches

by commercial banks. Much larger powers with regard to the inspection, control and licensing of Banks have recently been vested in the Reserve Bank by the Banking Companies Act, 1949.

22. *Have banking facilities developed adequately.*—The question whether the development of banking facilities in this country has been “adequate” is difficult to answer, because account has to be taken not only of the number of banking offices, but also of their quality—soundness, efficient working etc. Compared with some foreign countries, probably the development of banking in India would still appear to be “inadequate” as seen from the following table:—

Banking offices, Area and Population in some Countries

Country	Area in sq. miles (thousands) *	Population in millions †	Number of banking offices ‡	Number of banking offices per million of population	Average area served by one banking office (sq. miles)
United Kingdom	89	50	11,461	229	8
U.S.A.	3674	147	18,975	129	194
Canada	3690	13	3,323	256	1110
Australia	2975	8	3,599	450	827
India	1220	337	3,558	16	220

It must, however, be noted that mere comparisons of area and population in relation to banking offices do not indicate the correct position because the development of banking facilities must necessarily be connected with, and be dependent on, the economic development of a country, the state of its agriculture, industry and trade and the national income and its distribution. Since India's economic development has been comparatively inadequate, her national income low in relation to the population, and the vast majority of her people have such small incomes that they would hardly need the facilities offered by a bank, the existing structure of banking institutions could not be considered as altogether “inadequate”, if the expansion of the recent years were of a sound and progressive type, and the banking facilities were evenly distributed all over the country.

We have referred in the previous paragraph to some of the unhealthy features of the expansion during the war years. Not only did the expansion of commercial banks take place without adequate enquiry into local needs or careful consideration of costs and earnings, but an examination of the available data shows that much of it was lopsided, there being heavy concentration in the larger towns and cities, while the smaller and semi-urban towns received less attention. Out of a total number of 3,991 commercial banking offices in the provinces (1949) about 2,089 were situated in the larger cities and district headquarters towns, while only 1,902 offices were in other centres. Out of 1,954 towns in the provinces, 701 are served by scheduled banks; out of these 96 are towns with a population of less than ten thousand, 164 are towns whose population is not known, and as many as 440 are towns

*Source : Statement Year Book, 1948.

†Source : U.N. Monthly Bulletin of Statistics, October, 1949. For India, population figures are for the Indian Republic only from Census of India Paper No. 2, 1949.

‡Figures for U.K. and Australia are for 1948, those for Canada and U.S.A. are for 1947. Figures for India are for the Indian Union for 1947, and include those of co-operative banks with paid-up capital and reserves of Rs. 1 lakh and over.

with a population exceeding ten thousand, showing thereby that the scheduled banks, at any rate, are generally concentrated in the cities and larger towns, while the smaller towns are served largely by non-scheduled banks, co-operative banks, etc.. As many as 869 towns do not still have any banking facilities, including 492 places which are either district or taluka headquarters.

Available information, which is neither reliable nor complete, indicates that only 57 towns in the Centrally Administered Areas and 364 towns in the former Indian States are served by commercial banks, as against 1,085 towns so served in the provinces excluding the Centrally Administered Areas (Table No. 4 in Appendix III presents available data regarding towns served and not served by banks, population-wise).

As regards the question how far banking facilities have extended to rural areas, one preliminary difficulty that arises is the definition of "rural areas". According to the latest (1941) census report, places of population above 5,000 have been regarded as towns. In the previous reports, municipalities, civil lines, cantonments, and other collections of houses inhabited by not less than 5,000 persons, having clearly urban characteristics, were generally treated as towns. In classifying places as "rural" or "urban", the Postal Department relies on the practice of the census and of the local Governments, the instructions being that a "municipality, or any smaller town, declared by the local Government to be a town (or a notified area) for the purposes of any particular Act, should be considered as urban". The adoption of different criteria would lead to different results and makes the assessment of the exact position somewhat difficult.

The population criterion, although practical, is not quite satisfactory because many small towns with a population exceeding 5,000 have a considerable admixture of "rural population", and a belt of villages lying around them; and in fact, sometimes, quite an extent of agricultural land within their limits. In defining "rural society", the following remarks are made in the Encyclopaedia of Social Sciences :—

"As a provincial city of 25,000 people, however, may be more akin to rural society than to urban, whereas a smaller aggregate may belong more to the urban world, it is preferable to define rural society typologically than statistically....The distinguishing economic, social and political characteristics of rural society are derived from its relationship to the land, from which most of its inhabitants make their living".

Viewed thus, as the extension of banking facilities to medium sized towns accessible to a large belt of villages around, and comprising a mixed population of agriculturists, small traders, etc., would be of benefit to the rural areas even banks having their offices in such areas but having no direct contacts with the villages would be serving the needs of the rural areas, and it should, therefore, be assumed that there has already been a substantial extension of banking facilities to those areas. This, however, would be painting too rosy a picture in view of the known fact that, with a few exceptions, commercial banks have not found it possible to go beyond taluks headquarters towns and a few mandis or other trading centres farther inland, while the villages themselves are probably being served only by co-operative credit societies and, in some cases, by post office savings banks. Taking the various factors into

consideration, a more reasonable inference would perhaps be that while some extension to rural areas has taken place during recent years, having regard to the vast area and the needs of the country, much still remains to be done to extend to the people of these areas the benefits of modern banking.

23. *The nature and characteristics of existing institutions.*—Before proceeding to consider the means whereby the extension of banking facilities to the rural areas could be most appropriately carried out, it would be necessary to comment on some features of the existing system. As already noticed, the banking structure as it has been evolved in this country consists of a variety of institutions of different types. Although this may at first sight seem to be an indication of weakness and lack of uniformity, closer reflection would make it clear that such diversity is inherent in the variety of conditions and circumstances obtaining in the different regions of this country, and is the natural consequence of historical circumstances. The differing requirements of people cannot all be provided by one set of institutions wedded to a certain set of conditions and code of working, and necessitate the existence of various types of institutions. The peculiar position, unique status, and semi-public character of the Imperial Bank of India, and the historical background of its development are well-known. Among other commercial banks, while a few institutions of an all-India character, with large resources and a net-work of branches, have emerged, there have also come into existence a much larger number of regional institutions with local interests and contacts, and a number of smaller banks, each with its own distinctive sphere of operations and clientele. The large commercial banks afford banking facilities only indirectly to the rural people through indigenous bankers, traders, and the more affluent landholders. The smaller banks have greater local contacts and are able to adopt less rigid methods of business; they are in a position to offer higher rates of interest on deposits and make advances on all types of security. Partly as a result of State and policy and partly as a spontaneous development, a vast structure of co-operative credit and banking institutions has come into existence; here again the lines of development in the different regions are different as noticed earlier in the chapter. The postal savings banks have their own special features and functions. What appears, therefore, to be the diversity of the system is in fact an indication of its adaptability to the varying requirements of different regions and sections of people. No single type of institution will be able to meet all such requirements, and all the various types of institutions have their own place in the banking system of the country. What is necessary is to ensure a certain amount of co-ordination in their activities under the guidance of the Reserve Bank of India and the Central Government and State Governments and a minimum standard of soundness, efficiency and service to the people. The elimination of any set of institutions would not be in the interest of the country which would best be served by their consolidation and development on sound banking lines.

Since all the institutions are engaged in the field of banking, a certain amount of competition between them is inevitable. Such competition is, however, limited in character, being largely confined to matters like the attraction of deposits and issue of remittances. Properly regulated, this competition should have no adverse effect. Provision already exists under the regulatory powers vested in the Reserve Bank to see that in future such competition, so far as commercial banks are concerned, is not excessive and that banking development in different places is commensurate

with the opportunities available. We, therefore, consider it unnecessary to over-emphasize the possible effect of competition on the relative position of the different institutions. For the most part, the functions of different institutions such as the Imperial Bank, commercial banks, co-operative banks and post office savings banks are different, and their spheres of operations may be said largely to be complementary rather than competitive. We are, of course, aware that in certain quarters exaggerated fears of such competition are entertained and an over-critical attitude towards other institutions and their methods has been assumed, particularly as between the commercial and co-operative banks. There is, in our opinion, no need to entertain such fears, and apart from the control already exercised by the Reserve Bank of India on the opening of bank branches, no restrictions on the extension of banking institutions need be laid down to protect the interests of co-operative banks or commercial banks. The expansion of the net-work of the Imperial Bank of India on the lines suggested by us later in the Report, would not only not injure other sound banking interests but, we believe, actually help their development. The extent to which each type of institution may best be assisted to expand under existing conditions will be dealt with in Chapter IV.



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CHAPTER II

MOBILISATION OF RURAL SAVINGS

24. In an earlier chapter we have stated that, in considering the extension of banking facilities to the rural areas, the object in view must be the provision of institutional machinery necessary primarily to mobilise rural savings, and secondarily to place at the disposal of the rural people other banking services, the most important of which is the supply of credit. This would naturally lead to a discussion of two main questions:

(1) Do any opportunities exist for mobilising rural savings and if so, what means could be adopted to that end ?

(2) What are the essential factors which should be kept in view in devising a suitable machinery for the supply of rural credit ?

Of these two questions, the first will be dealt with in this Chapter and the second in Chapter III.

25. We are chiefly concerned with measures which can be adopted immediately, but the short-term and long-term aspects of the establishment and extension of the machinery for mobilising rural savings are so closely inter-linked that the two cannot be completely separated from each other. Moreover, the setting up of a machinery involving some expenditure under the present conditions would be justified only if, apart from meeting the temporary needs of the present, it would also serve a permanent objective. We shall, therefore, have to examine the question of mobilising rural savings not merely in relation to the war and post-war trends but also with reference to the position of the rural economy during normal times. We shall first discuss the position of rural savings during the normal years, and then pass on to a discussion of the recent trends.

26. *Position of rural savings in normal years.*—In India, capital formation in general has been of a very slow and limited character. This phenomenon, which has been mainly responsible for the low level and slow pace of our economic development, has generally been attributed to the low level of incomes in the rural sector which, it is suggested, never had any savings worth mentioning. For instance, referring to the views of some of the provincial Committees, the Central Bank Enquiry Committee pointed out in their report that the surplus left with the agriculturists who constitute the bulk of the population in India "was very little even in normal years". Agriculture as carried out in this country suffers from several handicaps: uneconomically small and scattered holdings, dependence on precarious rainfall, poor soil, and primitive technique, all leading to very low levels of productivity and incomes. It has, therefore, been assumed that surpluses and savings would not normally be available in the rural sector and also that there never was much of a saving in that sector; in fact, whatever investment might have taken place in the rural sector has been drawn from the urban areas. The limited experience of co-operative institutions which have largely drawn their funds from urban areas has lent support to this view.

27. In the absence of reliable data concerning national income and capital formation it would not be possible to establish beyond doubt whether the rural economy, in normal times, does or does not allow of substantial savings, but the assumption generally made that the rural sector has no contribution to make to capital formation in this country, because agriculture, as practised here, suffers from certain handicaps and has consequently been regarded as a "deficit" industry, ignores certain important facts, and cannot be accepted as wholly correct. The rural population consists of various classes, some of whom, at least, such as big landholders, cultivators of economic holdings and the thrifty sections of small holders and tenants, and traders, possess, except during periods when conditions are abnormal, a margin for saving. The surpluses enjoyed by such people have generally been invested in the purchase of land, in acquiring additional livestock and in agricultural improvements like the development of means of irrigation, construction of bunds and embankments, extension of gardens, commercial crops and plantations. Some times a portion of such surpluses has also flowed into urban enterprises, such as trade, the establishment of processing industries and the acquisition of urban real estate. Rural debt, which is said to be constantly growing, represents largely the re-invested savings of these classes. India has been a net importer of the precious metals in normal times, the total imports from 1920-21 to 1930-31 having amounted to Rs. 422·1 crores. It is well known that a substantial portion of these imports ultimately found their way among the rural people with whom, as with the rest of the people of this country, precious metals have for various reasons been a favourite medium of investment. To suggest that there has been no substantial saving in the rural sector in normal times would be to ignore the existence of the relatively more affluent and thrifty sections among the rural population ; on that basis, it would not also be possible to explain satisfactorily the considerable investment that has been taking place in the rural sector. We consider, therefore, that it would not be unreasonable to assume some net saving in the rural sector of our economy even in normal years, although such savings may not indicate a surplus available over and above what may be considered to be the justifiable consumption requirements of the entire rural population. It may not be possible to meet all these requirements from the existing production for years to come, and the only way by which capital formation could take place may be by the continuance—which seems inevitable under existing conditions—of low consumption levels for large numbers of people. The point, however, which is relevant to our enquiry and which we wish to make is that given the normal levels of consumption and reasonable prices, the savings capacity of rural economy need not be dismissed as non-existent or negligible under normal conditions, and that, therefore, the development of the means for mobilising rural savings would be justified. The embargo on the imports of gold and silver on private account since March 1947, which has resulted in the blocking up a favourite means of investment, further emphasizes the need for such a machinery, and makes it all the more necessary that an attempt should be made to attract at least a part of the savings, which would have been invested in the precious metals, into alternative channels of productive nature.

28. *Rural Incomes and Savings in recent years.*—In the previous paragraph we have tried to set out certain considerations showing why from the point of view of investment and need for capital formation in the country, it would not be wholly correct to proceed on the basis that the rural sector never did and never would be able to contribute substantially to the pool of national savings. The question whether there have been any savings in recent

times in the rural areas is, however, more pertinent to our enquiry, and we have accordingly tried to elicit as much information as was possible on rural incomes and savings through our questionnaire, as well as from other published data. This question again is surrounded by a good deal of controversy; some people hold that since the outbreak of World War II there has been a substantial transfer of purchasing power to the rural people, leading to an improvement in their economic position, an increase in assets and savings, and a reduction of debts, others take the view that the rural people have, on the whole, not benefited at all, that their condition has either been stationary or worsened, and that no substantial savings are available with them. The wide divergence of replies to our questionnaire on these points has revealed that the information furnished by different persons is derived largely from personal experience and guess work, and may not, therefore, always be reliable; also that conditions vary from region to region very considerably.

In discussing this question, it is necessary to distinguish between the position of the rural economy as a whole, in relation to the rest of the economy, and the position of different classes of rural people or of different regions in the country. Although the economic statistics available in our country are extremely inadequate, and are not of such a type as to enable us to establish the position with certainty, or to come to quantitative conclusions, we may examine such data as are available so as to arrive at certain broad conclusions.

29. *The overall condition of the agricultural economy.*—Taking first the economic condition of the rural or agricultural sector as a whole, its position in recent years can be examined with reference to (a) national income figures, (b) comparative price data, and (c) indebtedness studies.

(a) *National income estimates.*—Authoritative national income estimates are not yet available, but estimates which have been made by individuals and by some financial journals may be used to interpret general trends. The following table gives the available figures :—

National Income of British India upto 1946-47 and of the Indian Union in 1947-48

Year	Total National Income	Agricultural Income	Per- centage of column 3 to column 2	Estimate made by
1	2	3	4	5
(Rs. Crores)				
1931-32	1689	882	52.8	Dr. V. K. R. V. Rao.
1939-40	1934	953	49.2	Eastern Economist, dated 31-12-1948.
1943-44	4233	2128	50.3	do.
1944-45	4271	2294	53.7	do.
1945-46	4240	2225	52.5	do.
1946-47	4487	2569	57.3	do.
1947-48	3942	2129	54.0	do.
1947-48	4932	2660	56.2	An article in "Commerce" Annual Number, December 1948.

These estimates show that the money income of the agricultural sector has increased three-fold since 1931-32, and that the share of agriculture in the total income has gone up from 52·8 per cent. to between 54 and 57 per cent. of the total, revealing a relative shift in incomes, although of a small order. A point is, however, made that since population has been increasing, the extent of increase in *per capita* income has been small, and that although money incomes may have increased, real incomes have not increased correspondingly due to the rise in the cost of living, and that, therefore, there could be no margin for saving. This aspect will be considered in the following sub-paragraph, dealing with comparative price data, but here we should like to emphasize that so far as the money incomes are concerned there is substantial agreement, and most of the replies received by us support the view that these have risen considerably, although on the question of the increase in real incomes, there is difference of opinion.

(b) *Comparative Price Data.*—The movement of agricultural prices in relation to other prices is probably the most important factor determining the relative improvement or otherwise in the position of the agricultural sector as a whole. The following tables indicate the relative movements of agricultural prices and of the general price level in India from 1939 to 1947 in one table and since 1947 in another table.

(Separate presentation is necessitated by the change in the base and structure of the Economic Adviser's Index-Numbers of wholesale prices).

TABLE 1

Index numbers of prices of agricultural commodities (annual averages) and the General Index of wholesale prices, 1939-47.

(Base : Week ended 19th August 1939—100)

Year	Index number of Agricultural Commodities	General wholesale Index
1939	124·0	121·2
1940	117·8	119·6
1941	118·4	129·7
1942	148·0	158·1
1943	257·4	227·9
1944	261·0	240·8
1945	268·7	244·2
1946	305·2	266·4
1947	340·6	294·9

TABLE 2

Index Numbers of wholesale prices of agricultural commodities and the General Wholesale Index.

(Base : Year ended August 1939=100)

Months	(Average) Index Number of Agricultural commodities*			Index Number of Wholesale prices (General prices)		
	1947	1948	1949	1947	1948	1949
January . . .	356.7	423.1	506.2	290.5	329.2	376.1
February . . .	358.2	443.0	505.1	292.2	342.3	372.0
March . . .	357.0	445.8	496.0	293.2	340.7	370.2
April . . .	349.8	455.4	487.4	289.6	347.9	376.1
May . . .	349.2	473.0	485.3	288.5	367.2	377.1
June . . .	358.6	503.8	491.6	294.2	382.2	378.3
July . . .	359.4	508.4	480.4	297.7	389.6	380.6
August . . .	358.1	506.1	490.7	301.4	382.9	389.0
September . . .	356.3	506.2	485.7	302.4	382.3	389.8
October . . .	356.4	508.9	492.5	303.2	381.7	393.3
November . . .	355.3	513.7	492.2	302.0	382.2	290.2
December . . .	392.2	519.0	...	314.2	383.6	...

The position is also illustrated by the two graphs on page 34 showing the relative movements of the indices. From the tables and graphs it is apparent that up to 1942 the index of the prices of agricultural commodities lagged behind the general index, while after that year the former rose rapidly above the latter, and kept on rising. The gap between the two appears to have particularly widened after 1946, as a result of decontrol and the substantial rise in the prices of commercial crops such as jute, oil seeds, raw sugar etc.

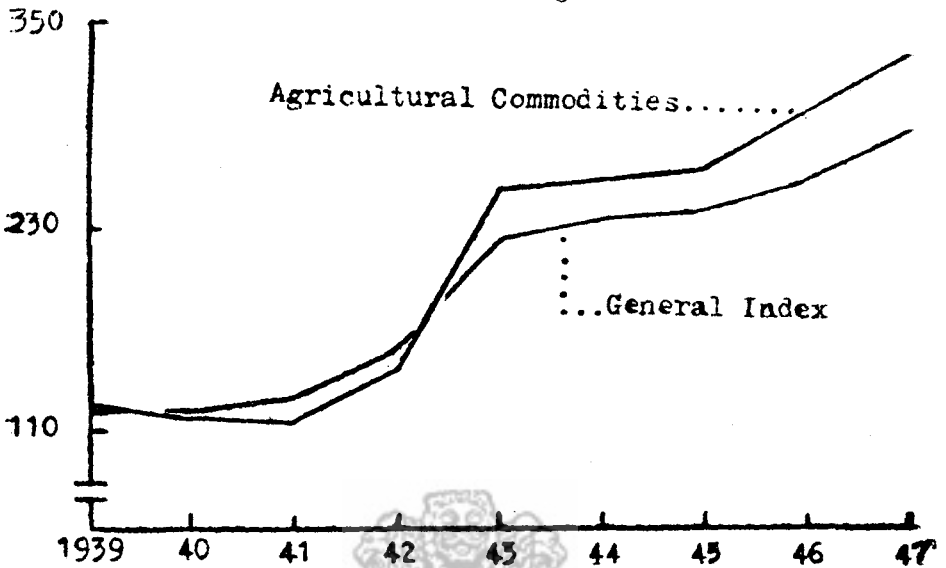
In the above tables and graphs we have had to use a comparison of agriculture price indices with the general wholesale index, in the absence of a separate index showing the movement of non-agricultural prices, or what would have been more relevant, the prices of the goods normally purchased by the agriculturists. Unfortunately, no index showing the prices of such goods is available for the country as a whole. It would, however, be of interest to observe the graph showing the indices for Uttar Pradesh, of agricultural price (wholesale), non-agricultural prices (retail), and agricultural parity indices from 1939 to September 1949, published in the U.P. Bulletin of Statistics, and reproduced on page 35. It will be noticed that the parity graph has throughout been above the 100 level since about the middle of 1945.

From the comparative price data presented above, it is broadly clear that after 1942, the relation between agricultural and non-agricultural prices has generally been advantageous to agriculturists, and that therefore, the money income as well as the purchasing power in real terms of that income has increased for the agricultural sector as a whole, thereby augmenting, other things being equal, its saving capacity. It is, however, necessary to take note of a few points which would appear, to some extent, to limit the force of this argument.

* Weighted average for the same group of commodities as included in the index in Table 1.

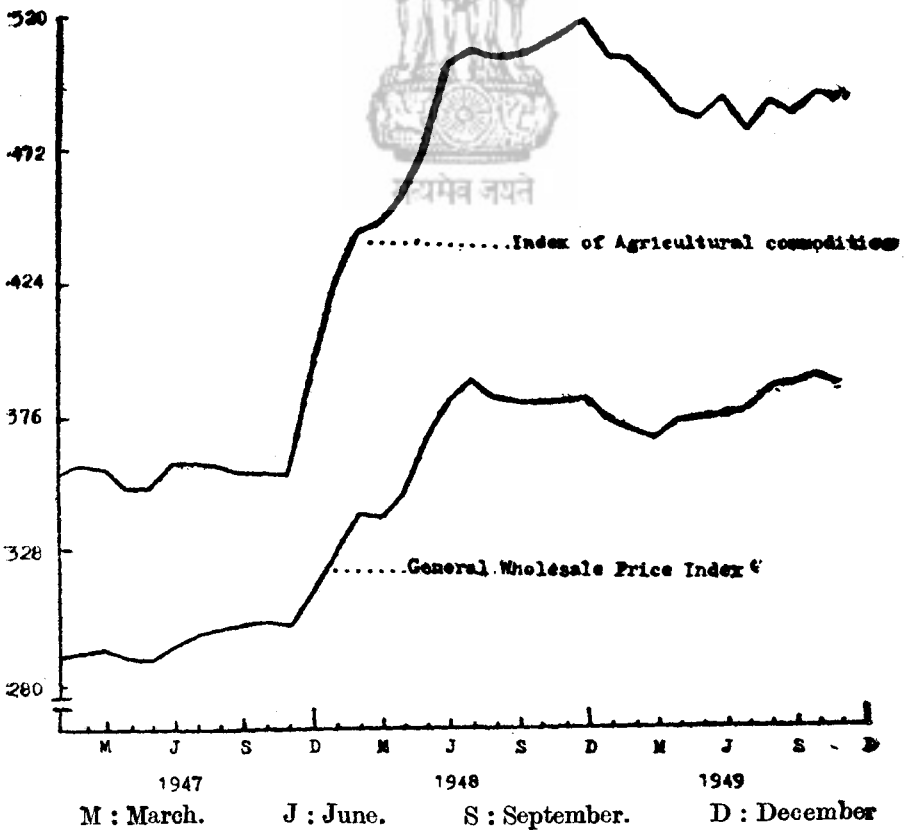
INDEX NUMBERS WHOLESALE PRICES (SENSITIVE SERIES)

Base : Week ended 19th Aug. 1939=100

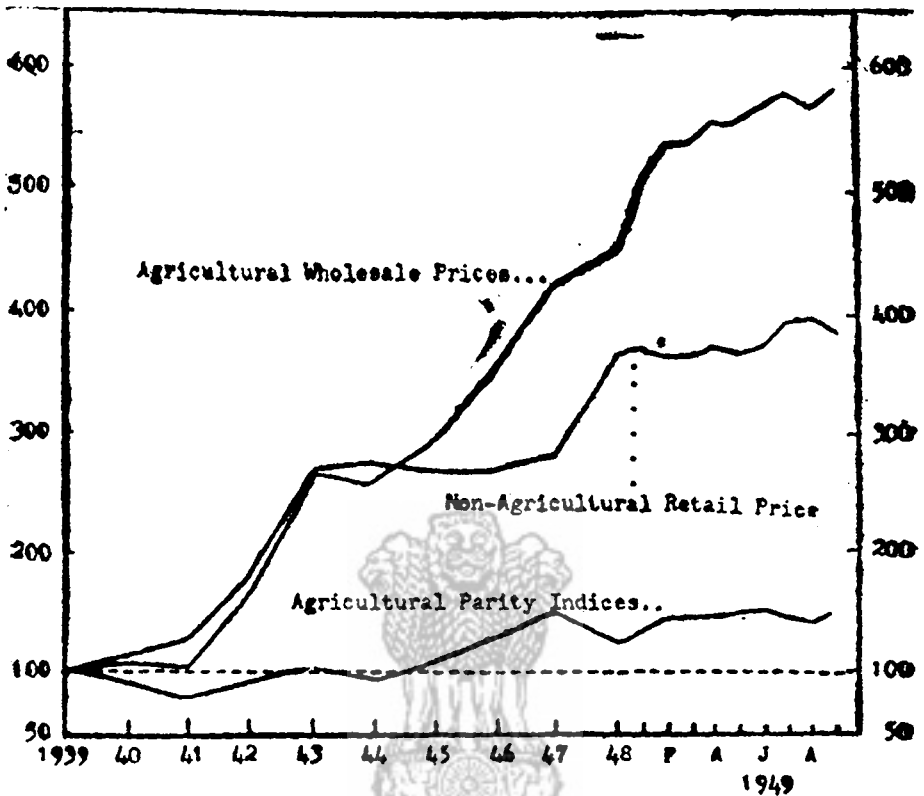


INDEX NUMBERS OF WHOLESALE PRICES

Base : Year ended Aug. 1939=100



AGRICULTURAL PARITY INDICES (UTTAR PRADESH)



Source : United Provinces Bulletin of Statistics

Source : United Provinces Bulletin of Statistics.

F : February.

A : April.

J : June.

A : August.

It is pointed out that along with agricultural prices, there has also been a rise in the cost of cultivation including wages, prices of bullocks, agricultural implements, etc. and in the prices of consumers' goods, such as cloth, salt kerosene, drugs and other food stuffs not produced by the cultivator some of which have had to be purchased by agriculturists from the black market. Thus several replies received by us suggest that costs of production and cultivation have since 1945, caught up with the agricultural prices, thereby reducing the margin available to the agriculturists, that of late considerable financial stringency is being experienced in the rural areas, and that as against the phenomenon of surplus funds which they witnessed till recently, the co-operative institutions are now faced with large demands for funds which they are unable to provide.

While these points may be relevant, there are also Certain other countervailing considerations which have to be taken into account in this connection. Firstly, agricultural costs are largely of a local and predominantly

rural character, and if they have risen, this only means a certain amount of redistribution of incomes within the rural community itself. The agricultural sector, as a whole, could not have suffered on account of the excessive rise of many of these items. Secondly, although the prices of consumers' goods have risen, expenditure on essential goods produced outside the rural economy normally forms a very small part of the budgets of the rural people and such expenditure has for several years been limited by the sheer non-availability of several types of goods. If, however, it is found, as is alleged by some, that rural people have of late been spending a good deal on non-essential items, this must be presumed to be largely a consequence of higher incomes. Black market prices have no doubt had to be paid by many agriculturists as by other classes for certain commodities, but as against this there has also been substantial black marketing in agricultural commodities, particularly foodgrains, a part at least of the grains being reaped by agriculturists. It is, therefore, probable that if for the rural economy as a whole the net margin between income and outgoings has been, of late, getting narrowed, it is largely a consequence of increased expenditure which is in itself a corollary to the inflationary rise in incomes.

(c) *Indebtedness studies.*—The effect of inflationary conditions on rural indebtedness would constitute another pointer to the present condition of rural incomes and savings. On this question also, we are not in possession of information for the country as a whole, or for all regions on a uniform basis. There is, however, a strong and widespread belief, expressed both in the replies received by us and elsewhere, that as a result of war and post-war developments there has been a substantial reduction of rural indebtedness. Some go even to the extent of saying that much of the old rural debt has been wiped out, but more informed views, based upon *ad hoc* studies and surveys, indicate that debts have been reduced but not always to a large extent and that while the debts of large and medium landholders have been substantially reduced, those of small landholders, tenants and labourers have not been reduced significantly. Co-operative statistics since the outbreak of the war have indicated, in the relatively developed provinces of Madras and Bombay, a substantial decrease in the outstanding debts, particularly overdue, an accumulation of surplus funds with the financing banks, a slackening in the demand for fresh finances, and in the case of land mortgage banks considerable advance repayments of loans. These trends, however, were noticeable generally up to 1945, since when they have been reversed and fresh borrowings as well as outstandings have tended to increase rapidly. Despite this reversal in trends, to the extent that the transactions of co-operative societies represent general conditions prevalent in the rural community as a whole a relief in the burden of debt and a reduction in credit requirements till recently, can be inferred. The recent increase in the demands on co-operative institutions may be due partly to the curtailment of business by money-lenders consequent on the restrictive effect of agrarian legislation, and partly to the larger requirements for working capital consequent on rising wages and other costs.

Among the first hand investigations made on the subject we may notice two namely, a survey by the Bombay Provincial Co-operative Institute of the indebtedness of the Members of Co-operative Societies in the Karnatak and Deccan regions of the Bombay Province, and the survey of indebtedness in the Madras Province conducted by Dr. B.V. Narayanaswamy Naidu. According to the former, broadly speaking, there was a reduction of debt between

1939-44, the extent of reduction being less in the Karnatak than in the Deccan. Generally the reduction was considerable among cultivators of large holdings going up to 50 per cent. while in the smallest holdings of less than 5 acres the extent of reduction was small and in some tracts there was an increase of debt ranging from 9 to 30 per cent. It was also found that due to the increase in land values the burden of debt became relatively easy to bear and that there was no reduction in the average extent of land owned by any group of cultivators in any tract.

Dr. Naidu's report, based on a sample survey spread over the whole province, amongst all classes of agriculturists, provides more valuable results.

According to this the total debt of the province which stood at Rs. 272 crores in 1939 was reduced to Rs. 218 crores in 1945 or by about 20 per cent. Including the debts contracted during this period for purchase of land or other productive purposes, the gross reduction of debt was Rs. 82 crores or about 37.6 per cent. The major part of debt reduction was due to the sales of land estimated at Rs. 46.9 crores, and only Rs. 24.7 crores is attributed to war-time rise in prices. - *Per capita* debt had fallen from Rs. 51 in 1939 to Rs. 40.8 in 1945 ; the burden of debt, in real terms, however, was considerably reduced, to about a third of the real burden in 1939. It is, however, pointed out that the major part of the benefit indicated by the reduction of debt was confined to the larger and medium landholders, while the position of small holders remained practically the same and that of tenants and labourers, actually worsened. The following table gives some interesting data taken from the report, illustrating the relative position of different classes in respect of indebtedness.



Relative position of different classes of agriculturists in the Madras Province

Class	Percentage of total number of agricultural families	Proportion of families free from debt or which completely cleared debt (per cent)	Per capita debt in		Percentage fall (—) or rise (+) in debt	Percentage of total debt owed by the class in		Surplus (+) or deficit (—) of income over expenditure per family in 1945 Rs.
			1939 Rs.	1945 Rs.		1939	1945	
1	2	3	4	5	6	7	8	9
I. Big land holders (25 acres and above).	2.9	50.0	188.5	113.3	—39.9	14.4	10.8	+1118.9
II. Medium land holders (between 5 and 25 acres).	24.6	37.7	78.8	59.4	—24.6	43.5	41.0	+117.2
III. Small land holders (under 5 acres).	44.3	34.0	42.8	37.6	—12.3	35.3	33.7	—0.9
IV. Tenants	13.2	33.7	20.5	21.3	+4.1	5.4	7.0	—44.1
V. Landless labourers	15.0	33.3	5.7	8.3	+45.6	1.4	2.5	—10.6
All groups	100	35.2	51	40.8	—19.9	100	100	

These figures indicate substantial improvement in the case of medium landholders and big landholders and although a large proportion of small holders, tenants and labourers still remain indebted and the position of the last two classes appears actually to have been worsened, the conclusion that there has been a general improvement would not be vitiated, when account is taken of the following facts :—

(i) that a certain amount of debt is characteristic of every agricultural community all over the world ;

(ii) that a large part of the outstanding debt on any day would probably represent current debt needed for working capital, which, at higher prices, would naturally be of a much greater order than before ; and

(iii) that, even in the case of the lowest classes where the figures of indebtedness record an increase, in view of the general rise in the level of prices and incomes, the burden of debt in real terms could not have increased considerably

Reference may also be made to the conclusions of the survey of “ Bhuvel ”, a village in Baroda, conducted under the auspices of the Indian Society of Agricultural Economics. The total indebtedness of the village fell from Rs. 2 lakhs before the war to Rs. 1·2 lakhs in 1945-46, and the present debt in terms of the pre-war rupee value is said to be only 15 per cent. of the pre-war debt. Overdue loans of the local co-operative society were reduced to less than half their amount in 1938-39, while deposits collected by the society increased from Rs. 31,000 to Rs. 56,000.

To sum up, it is clear from such economic data as are available, that taking the rural population as a whole, there has been an increase in money incomes, due to the rise in agricultural prices, and that although other prices, and costs have also been rising the terms of exchange appear to be, on the whole, relatively favourable to agriculturists, and a margin has been available for savings. Co-operative statistics, reduction of indebtedness, and increase in rural post office savings balances reinforce this general conclusion. But many have held the view that whatever benefit might have accrued to the agricultural sector as a whole, this has largely gone to a small class and that the vast majority of the rural people have either not benefited at all, or have even suffered to some extent. We shall go into this aspect of the matter in the next paragraph.

30. *The economic position of different classes and regions.*—As occupational statistics are not available for recent years, the exact class structure of agricultural population at present is not known, but taking landholders and cultivators who are the most important part of the rural population, the most outstanding fact of the situation is that a very large majority of holdings in India are small and “ uneconomic ” and except for those raising commercial crops, the agriculturists have very little surplus to sell. The following table gives a rough indication of the position regarding agricultural holdings in different parts of the country.

Distribution of holdings according to size

	Madras†	Bombay*	Punjab*	U.P.‡	Bengal*
Average size of holding (acres)	4.5	11.7	10.0	6.0	4.4
Percentage of number of holdings under 5 acres to the total	82	49	63.7	81.2	71.3
Percentage of number of holdings under 10 acres	89	N.A.	80.6	93.0	88.3
Percentage of number of holdings under 15 acres	N.A.	78	87.9	N.A.	N.A.
Percentage of number of holdings under 25 acres	N.A.	89	93.7	99.1	N.A.

If holdings of 10 acres and above only are regarded as economic (although 5 acres may be the economic unit in irrigated or fertile tracts, and 25 acres in areas of scarcity) more than 80 per cent. of agriculturists would be found owning "uneconomic" holdings. In other words, except in irrigated areas, or those growing commercial crops, substantial benefit in the shape of higher incomes and financial assets could only be obtained by less than 20 per cent. of agriculturists. Since this small class owns a substantial part of the total land (35.1 per cent. of the total area in the U. P., 74.7 per cent. in the Punjab, and more than 67.7 per cent. in Bombay§) it would mean that a fairly large proportion of the total agricultural income has also gone into the hands of this small minority. As already noticed, the benefit of debt reduction has largely accrued to this class which has also of late benefited from other developments, such as increased participation in money-lending, and trade in agricultural produce and livestock, while higher direct taxation which has seriously encroached on urban incomes has not touched them except to a small extent where an agricultural income-tax has been levied. Taking the country as a whole, therefore, the major part of rural surpluses and consequently savings held in one form or other, should be found with this class and with some non-agriculturists, such as village money-lenders, traders, owners of mills, etc. Most replies received by us indicate that there has been a concentration of savings in the hands of these classes, it being held that 50 per cent. or more of the total savings must have been made by big landholders except where they are in receipt of fixed cash rentals.

So far as the other classes such as small land holders, tenants and labourers, are concerned, the general view is that although their money incomes have increased, the extent to which such increases reflect a real improvement in their position is extremely doubtful. Where seasonal and regional factors have been favourable, irrigated or commercial crops grown, and labour has been able to secure higher wages, there has been an improvement. Where, on the other hand, the agriculturists have suffered from adverse seasons and labour has not been able to obtain adequate wages, their position has not improved. Even in the case of smaller agriculturists and labourers, there have

N.A.—Not available.

Sources:—

*Famine Commission Report, 1945.

†O.P. Ramaswamy Reddiar, "Agrarian Reforms and Parity Economy".

‡U.P. Zamindari Abolition Committee Report, Vol. no II.

§Holding of above 15 acres.

been certain factors favourable to the earning of good incomes, although they did not operate everywhere. These factors which enabled the smaller agriculturists and labourers to add to their incomes were (a) good demand and high prices for subsidiary products such as vegetables, milk, and egg; (b) the availability of good employment opportunities in public works, and other war-time activities; (c) the recruitment of large numbers of rural people to the armed forces leading to remittances from them; and (d) high wages resulting from the scarcity of labour. The extension of prohibition and the limitation of rents by tenancy laws in certain regions are other developments in their favour.

It is, therefore, likely that some of the small land holders, tenants, and labourers have also been earning higher incomes with some margins for savings, but such savings would be found distributed in small dribblets among large numbers, or absorbed in an improved standard of living, or in certain cases, dissipated in wasteful expenditure.

As regards the distribution of savings over different regions, the consensus of opinion is that while these are likely to be substantial in the more fertile tracts such as the deltaic and irrigated areas, those enjoying high and secure rainfall, growing commercial crops, and the plantation areas, the savings in other areas are likely to be meagre.

31. *How increased incomes and savings are being used.*—If, therefore, the incomes and savings of the more affluent rural classes have increased considerably, and if some of even the smaller people have had better incomes with margins for savings, how are these being utilised? Information elicited by us through replies gives only a general idea of the picture. Larger incomes and savings are being used to repay debts and make loans to other agriculturists, purchase lands, gold and silver, improve agricultural equipment and effect improvements to land, and only partially to accumulate cash savings, the holdings in cash being generally considered to be small. As regards investments in agricultural improvements, this tendency has been noticed specially in the case of the relatively better-off agriculturists among whom the desire to make productive use of available funds is more in evidence at present than at any other time. In a memorandum sent to the Committee, Professor D. G. Karve remarks: "While some wasteful expenditure and unproductive investment must be assumed to exist, the normal habits of prudent spending and productive investment are obviously more widespread now than what they were some years ago, say in the period of the first world war". Among the generality of rural people, however, observers report that wasteful and extravagant expenditure on non-essential such as cheap luxuries, beverages, smoking, travel, entertainment and drink, ceremonies and marriages, etc., have been on the increase and these probably account for a large part of the incomes obtained by the smaller people in rural areas. To give one instance, the revenue from excise in Patiala State increased from Rs. 18.86 lakhs in 1939 to Rs. 104.83 lakhs in 1948 indicating the increased expenditure on drink in that State. To some extent, larger incomes are also being utilised to raise consumption over previous standards, and the retention of a large part of food grains production by the producers is attributed, at least in part, to this phenomenon.

32. *Estimates of savings.*—While it is possible to draw some general conclusions, as attempted above, regarding rural incomes and savings and their probable distribution among different classes, it is not possible to hazard any

guess as to the magnitude of current annual savings, and still less about what may be the size of accumulated cash savings available with the rural people. Estimates made by those who have replied to our questionnaire have revealed widely divergent figures, those for total rural savings in the country as a whole ranging from Rs. 20 crores to Rs. 1,000 crores per annum. Estimates for individual provinces vary from Rs. 2 crores to Rs. 50 crores. On the basis of the data regarding deficits and surpluses for families of different classes given in Dr. Naidu's report*, an estimate of about Rs. 45.6 crores for Madras Province in 1945 can be arrived at. According to a survey conducted by the Indian Statistical Institute in West Bengal in 1946, an estimate of Rs. 50 crores for that province has been arrived at. If Mr. Colin Clark's estimate that savings constitute about 10 per cent. of the national income were applied to agricultural income, although an overall average rate cannot be held to apply to a particular sector, we arrive at a figure of about Rs. 250 crores for India as a whole, assuming agricultural income to be of the order of Rs. 2,500 crores.

As regards the amount of accumulated savings invested in one way or the other, and what is available in the shape of cash—either in fairly large amounts with the affluent classes, or in small dribblets with the poorer classes in the rural areas—it is impossible to give any figure whatsoever. All that one could, perhaps, say is that while it would be wrong to proceed on the assumption that large amounts of cash savings are available for collection through the extension of banking facilities to rural areas, if the data so far noticed have any validity, it cannot also be categorically held that no possibilities of drawing rural savings into channels of investment useful to the public exist at all.

33. *Future trend of savings.*—To what extent the existing trend of incomes and savings would continue in the future is also difficult to assess. Reference has been made to the view, widely held, that the margin between incomes and costs has already been very much narrowed and that stringent financial conditions are being experienced among the rural people. This phenomenon is not exclusively confined to the rural economy, but is being experienced by all sectors at present. Some of the replies received by us suggest that the future trend of agricultural prices is bound to be downward, as a result of Government's anti-inflationary policy as well as world factors, and therefore the present favourable conditions cannot continue. Others, however, consider that it is very unlikely that agricultural prices would fall for some years to come, and that as a result of increased productivity arising from Governments' projects and developmental plans, agricultural incomes would be increased. Here again no definite view can be expressed, and all that could be said is that the present trend of incomes and savings can be expected to continue only if the relative position of agricultural prices prevailing at present is maintained, and whether this would in fact be the case cannot be foreseen.

34. *Scope for mobilising rural savings and the means to be adopted.*—The foregoing analysis of the various aspects of rural incomes and savings should provide the necessary background against which the question of the extension of banking facilities is to be examined. Considering the existing conditions and the doubtful character of future trends, it would, in our opinion, be advisable to concentrate on the consolidation of the progress already achieved, and to plan further expansion, to a limited extent, on sound and cautious lines rather than undertake any costly and hasty schemes of expansion of the banking system on the basis of over-optimistic expectations. Such

*See column 9 of table on page 38.

further expansion of organized banking would have to be conceived largely from the point of view of bringing within its framework the savings already accumulated and being currently made by the relatively well-to-do rural classes, particularly in the more prosperous regions and, to a certain extent, the amounts likely to be paid to zamindars by way of compensation. For this purpose, the most suitable machinery would be that of sound commercial banks which may be encouraged to open offices at urban centres as near the rural areas as possible, for instance, taluka (or tehsil) headquarters towns and market towns which are frequently visited by the more affluent persons among the rural population.

In the case of smaller people in rural areas, the extension of banking facilities should aim at mobilising small savings and also a part of the incomes likely to be generated as a result of public investment in various projects. In their case, the emphasis will largely have to be placed on the expansion and more effective utilisation of machinery like post office savings banks and co-operative societies. Attempts will also have to be made to promote thrift and small savings by means of constant and effective propaganda, and group effort utilised to the maximum possible extent.

35. *The importance of a machinery for mobilizing rural savings.*—Apart from providing the necessary impetus to savings and inculcating the habit of thrift which are necessary at all times to promote self-help and self-reliance among the rural people, it is essential, in the changed political set-up of the country, that all sections of the community should fully co-operate in the national effort for economic development and contribute to the general uplift of the country. It is, therefore, desirable that encouragement should be given to the development of banking, and an adequate and efficient machinery set-up for mobilising rural savings, as a permanent part of the mechanism of capital formation. The existence of such a machinery is, in our opinion, necessary in the interests of the rural areas themselves, since resources made available to co-operative societies or banking institutions would largely be utilised for investment in these very areas, either directly or indirectly through governmental schemes. Even on an extremely moderate scale, internal capital needs for purposes such as multi-purpose projects, development of roads and communications, land colonization schemes and industrial development on a strictly limited scale, would roughly amount to about Rs. 120 crores per year for the next five years, excluding normal private investment in agriculture, small-scale industries and housing. Including the new capital required for agriculture, small-scale industry and housing, the requirements may be estimated at Rs. 360 crores a year. The minimum requirements for multi-purpose projects alone are estimated at Rs. 250 crores in the next five years. Large amounts are also necessary to meet the requirements for rural credit. The implementation of the various plans will be rendered possible only if the rate of internal capital formation is substantially increased, and rural savings will have to be fully mobilised to play their due part in such schemes of development, which may be expected to assume increasing importance and make larger demands on the country's capital resources in the coming years.

Apprehensions have been expressed in certain quarters that the extension of the banking system to the rural areas is being conceived only with a view to mopping up savings, or denude the rural areas of their wealth. Enough has already been said to show that although we do emphasize the savings aspect, this is done with a view to mobilising savings for productive investment largely for the benefit of the rural areas themselves. That we are not unmindful of the requirements of the rural areas for finance and credit will be seen from the following chapter.

CHAPTER III

MACHINERY FOR RURAL CREDIT

36. Simultaneously with the mobilisation of rural savings, the extension of banking facilities to rural areas must aim at providing adequate credit facilities for the rural people. We have already explained why, in the present conditions, we attach greater importance to the task of mobilising rural savings. At the same time, we are aware that those two problems—that of mobilising savings and of extending credit to the rural people—cannot be treated separately. This is primarily for two reasons. Firstly, the machinery for collecting the savings of the rural people and that for extending credit to them is bound to be the same to a large extent. People would normally deposit their savings only with such institutions as would be prepared to lend money to them, as and when necessary. "The agriculturist" says Prof. D. G. Karve in his reply to our questionnaire, "when he has, money tends to keep it with himself because he expects to need it later. While keeping it with himself with the most provident of intentions, he in many cases succumbs to the temptation of other than provident use. To encourage an agricultural depositor, it is necessary to assure him that he will get an advance when he needs it". Most agriculturists would probably come into contact with the banking system as borrowers and when they improve their economic position they may be expected to make use of the system for depositing their savings. Moreover, duplication of machinery would be uneconomical and should be avoided as far as possible. Secondly, the primary purpose of mobilising rural savings is to make them available for investment in rural development, either directly by the agriculturists themselves, or indirectly through projects undertaken by Government. Rural development requires improvement in technique as well as equipment, and without the use of an enormous amount of capital both by individual agriculturists and by public authorities, it would not be possible to bring about any substantial improvement in the standards of production or living. The capital requirements of agriculture and other rural industries are both vast and urgent and the task of a satisfactory banking system should be to collect savings to the maximum possible extent, and make them available for investment.

37. It is, therefore, necessary that the various implications of a satisfactory machinery for rural credit should also be examined by us before we proceed to make specific proposals for the extension of banking facilities to rural areas. The question of the supply of finance to the rural areas and the provision of a suitable machinery for this purpose has received a good deal of attention during recent years, and the whole subject has been comprehensively discussed in several reports, the more important of these being the reports of the Agricultural Finance Sub-Committee (Gadgil Committee) of 1945, and the Co-operative Planning (Saraiya) Committee of 1946; the report of Dr. B. V. Narayanaswamy Naidu on Rural Indebtedness in Madras Presidency (1946) and the report of the Bombay Agricultural Credit Organisation (Nanavati) Committee (1947). It is, therefore, unnecessary for us to go into the matter at length, and we shall confine our observations to stating briefly our own position with regard to the main recommen-

dations contained in these reports. We shall first consider the proposals concerning indebtedness and its relief, and then proceed to discuss the proposals for a reorganized machinery for rural credit.

38. *Proposals concerning indebtedness and its relief.*—The view generally taken is that the adjustment and liquidation of old debts is an essential preliminary to the reorganization of rural credit on a satisfactory basis. The Gadgil Committee have proposed such adjustment and liquidation within a limited period of two years, mainly on the lines adopted in the Bombay Agricultural Debtors Relief Act, which provides for the compulsory scaling down of the debts of the majority of agriculturists and paying them off by transfer to land mortgage banks, or to an Agricultural Credit Corporation. The Committee were aware of the possible difficulties arising out of such a procedure, particularly the restriction of credit facilities and in paragraph 17 of Chapter IV of their report observed : “ The agriculturists may find it hard to obtain loans for current needs during the transitional period and this may have serious repercussions on the agricultural economy of the country and may create difficulties even in the introduction of the scheme. We, therefore, recommend that the adjustment of debt should invariably synchronize with, and be accompanied in every region by, the provision of agencies of credit alternative to the private creditor and by the regulation of the operations of private agencies on the lines suggested by us elsewhere ”. These observations make it clear that the Committee’s proposals for the liquidation of debts are based on the assumption that a comprehensive institutional machinery to satisfy all the legitimate credit requirements of agriculturists could be set up within a short period of time and that the financial resources necessary to pay off old debts and to meet current financial requirements would be available.

The proposal of the Gadgil Committee has been endorsed by the Saraiya Committee. In this report, Dr. Naidu has recommended that all the debts of agriculturists, except of those who have to be dealt with by a simple insolvency law, should be compulsorily ascertained and liquidated by the issue of irredeemable bonds carrying a guaranteed interests of $3\frac{1}{2}$ per cent. The Nanavati Committee have taken note of the fact that the Bombay Agricultural Debtors Relief Act, 1939, as amended in 1947, was extended to the whole of the province, and provision made through the courts for the compulsory scaling down of agriculturists’ debts and the fixation of instalments in which the adjusted debts are to be repaid, and apparently consider that this procedure is satisfactory. They have, however, remarked that, with the application of this procedure, “ the normal sources of finance have dried up ”, and that the problem of making adequate provision for the needs of the adjusted debtors and other creditworthy agriculturists has become urgent. Some of the replies received by us are also to the effect that, as a result of the application of this Act, the credit situation in Bombay has become relatively difficult. Even according to the programme set down by the Nanavati Committee, it would take ten years (from 1947) to provide all the credit requirements of creditworthy agriculturists while the needs of others have yet to be considered. Thus, it is obvious that until the necessary machinery is fully established, many agriculturists are likely to experience considerable difficulty due to shortage of credit.

Before similar attempts to liquidate old debts are made elsewhere, we would like to put forward briefly certain considerations which suggest to us that the present period is not opportune for such experiments. Firstly

war and post-war inflation, as already noticed, has led to a substantial reduction in the money and real burden of rural debt, and the majority of agriculturists are now probably in a position to bear their debts more easily. Secondly, although the total rural debt may even now be large in size (Rs. 218 crores in 1945 in Madras according to Dr. Naidu), a considerable portion of this may really consist of current debt, which represents largely the working capital of agriculture, and which cannot be repaid before satisfactory alternative arrangements for the supply of such working capital are made. Thirdly, the total finances required to pay off adjusted debts and to provide the current capital needs of all agriculturists all over the country would run into hundreds of crores, which cannot be raised either by Government, or by the banking system, at the present juncture from the capital market. The expedient of issuing, "irredeemable bonds" does not solve the problem because such bonds would nevertheless be marketable, and the provision for repayment by instalments, while freezing the funds of creditors for a number of years, creates serious difficulties for normal current finance. Bombay's experience has shown that neither the adjustment of debts, nor the establishment of a complete machinery for the provision of credit is possible within a short period of time such as two years due to limitations of finance, personnel, and the ability of courts to deal with the work entrusted to them. It follows, therefore, as the Gadgil Committee themselves realized, that there should be no violent disturbance of the credit structure till the establishment of a satisfactory institutional machinery which, despite enthusiastic efforts, is bound to take years. Agricultural improvement and normal activity cannot be expected to be held up in the meanwhile. Considering these factors, and also taking note of the fact that compulsory scaling down of debts except under emergency conditions such as those caused by the depression does not create that respect for obligations which is necessary in any sound credit system, we consider that there is no imperative necessity to proceed with such adjustments elsewhere; and that attention should more properly be concentrated on building up the institutional machinery for rural credit.

39. *Proposals for a reorganized machinery for rural credit.*—(i) *Single or multiple credit agency.*—The Gadgil Committee thought that on theoretical grounds, a single financial agency which covered the entire field of all credit to the agriculturist—producer would be the most logical solution of the problem, but in view of the practical limitations to which such project would be subject in the existing conditions, they did not consider its establishment feasible, and decided to adopt their recommendations "as largely as possible to the existing structures and work, along the lines of present developments". They also stated: "However, in view of the vast extent of the country and the large variety of conditions within it, we feel that attempts should be made to develop as varied a system of institutional finance as possible for financing agriculture". We consider that this line of approach is practical and necessary under the present conditions, and our own remarks in Chapter I about the necessity for a varied institutional structure and the role different institutions are to play in providing banking facilities to the people are in conformity with this broad conclusion.

(ii) *The machinery for short-term and medium-term credit.*—The Gadgil Committee consider that, theoretically, co-operative societies constitute the ideal agency for rural credit, but in practice it has been found that their working is, in several cases, defective. As yet they cover a very small proportion of the rural people and meet only a fraction of their

credit requirements, and, except in a few regions, their working has not been very satisfactory. The extension of co-operative credit to meet all the requirements of creditworthy agriculturists all over the country within a short period of time is considered impracticable without a very large degree of State assistance and control, which would seriously affect its democratic "cooperative" character. It would also be difficult to link the cooperative organizations with non-members. For these reasons that Committee recommend the establishment of an Agricultural Credit Cooperation for each province, except where the Government feel that the cooperative financial agencies are so strong and have such wide scope that they could undertake all the work expected from the Agricultural Credit Corporation.

The proposed agricultural credit corporations would be autonomous institutions, half the capital being provided by the State and the rest by joint stock banks, cooperative institutions, marketing organizations etc., there being no individual shareholders. They would establish agencies and branches all over their regions, wherever needed, supply all types of credit and be managed by executive officers. They would provide finance to co-operative societies where central financing agencies do not exist, and supply mortgage credit directly to individual agriculturists. But intermediate and short-term credit based generally on personal security, or statutory first charge on the crop, could only be provided through cooperative societies or other "borrowers' groups". The rates of interest charged by the corporations would not exceed 4 per cent. for mortgage and 6½ for other types of credit. The State would have to subsidise the corporations to enable them to supply credit at these rates, and to establish "uneconomic" agencies in certain areas. The activities of the corporations would be coordinated with those of cooperative and other institutions, competition being avoided. The Committee were, however, unable to estimate the finances required to establish and run the corporations for any regions, nor did they clarify whether these institutions would accept deposits or perform any other "banking" functions.

Cooperative opinion in the country has been highly critical of these proposals mainly on the ground that, given the financial resources and assistance contemplated for the corporations, the cooperative financing agencies such as the provincial and central banks can equally meet the requirements, with the additional advantage that they are already established and have some organization in the field. The cooperative banks can draw to a considerable extent on the services of honorary public workers, and have already been able to attract considerable funds through deposits, while the feasibility of raising funds required for the agricultural credit corporations in the manner suggested by the Gadgil Committee is very doubtful. The cooperations generally disapprove of two alternative credit agencies working in the same field with state support and assistance, and believe that the effect of such competition would be detrimental to the interests of the cooperative organizations. Moreover, even if the new corporations are set up, except for well-to-do individuals who may be able to deal directly with them, primary organizations would have to be cooperative societies, or similar borrowers' groups. In view of these factors, the Saraiya Committee expressed the opinion that "not only in some provinces where the cooperative movement has attained a high degree of development, but also in other provinces and states the provincial cooperative bank, or the central cooperative financing organization, can provide the agriculturist with all the facilities which are intended to be given by the agricultural credit corporations. The same measure and type of aids as those recommended to be given to the

agricultural credit corporation should be given to the provincial cooperative banks and there should then be no need to start a separate organization for this purpose."

The provision of such assistance and the reorganization of the cooperative credit structure so as to function as effectively as a credit corporation have been accepted as unobjectionable, both by the Cooperative interests and by several Provincial Governments as may be seen from the experience of Bombay, Bihar and Assam. In Bombay, following the recommendations of the Nanavati Committee, which opined that the cooperative financing institutions in the Province would be able to undertake the tasks envisaged by the Gadgil Committee for meeting the credit requirements of all creditworthy agriculturists, the Bombay Government have taken the following steps :

(a) The constitution of the Bombay Provincial Cooperative Bank has been amended, providing for subscription to its share capital by the Provincial Government to a substantial extent and representation on its board of directors by three nominees of the Government.

(b) In order that the Provincial Bank and its branches and the central cooperative banks and banking unions should function as an integrated credit system, provision has been made for the Provincial Bank to subscribe to the share capital of the central banks and to inspect and supervise their working. The Provincial Government have agreed to contribute to the Provincial Bank a sum equal to the amount contributed by the bank to the share capital of central banks, subject to a maximum of Rs. 25 lakhs.

(c) To enable the Provincial Bank or the central banks to open branches at all places necessary to provide credit facilities to all creditworthy borrowers and adjusted debtors, Government have agreed to subsidise for an initial period of three years, " uneconomic " branches opened with their approval to the extent of the actual deficit of the branch in any particular year, subject to a maximum varying from Rs. 2,500 to Rs. 5,000 per annum, the actual limit being dependent on the total volume of agricultural loan business transacted by the branch during the year.

(d) Provision has been made to disburse loans to individual borrowers who may not be members of primary credit or multi-purpose societies, directly by the banks.

(e) The extension of cooperative credit, or multi-purpose, societies in the large numbers has been taken in hand, and Government have agreed to subsidize multi-purpose societies during an initial period, on a gradually diminishing scale.

(f) Government have also agreed to guarantee the losses of financing banks and societies to the extent of 5 per cent. of the total crop finance advanced by them.

The lines on which the provincial cooperative banks are being reorganized in Bihar and Assam have been referred to in Chapter I of this Part. Considering these developments and also the views of people connected with the cooperative movement and with rural finance, it appears that there is a general preference for the reorganization of existing cooperative banks, where

necessary, and their expansion and development, than for the establishment of new agricultural credit corporations. It is, however, recognized that in selected areas, such as some of the former Indian States, where the cooperative financing structure does not exist or cannot be developed easily, State corporations or agricultural banks may have to be established to deal with the problem in doing so, the State Governments, may prefer to reorganize some State-owned or State-sponsored banks already functioning in their regions rather than establish entirely new institutions.

Our own view on this question is that no universally applicable pattern or machinery can be laid down for all regions, and that in each region, an adequate machinery should be developed in conformity with local circumstances, traditions and ideas. The very fact that each province is attempting to plan the development of its cooperative structure on different lines indicates the necessity for variety and rules out a uniform pattern. But there are a few general points we would like to emphasize. One is that the machinery to be developed should be such that it would be able to raise adequate funds by way of share capital and deposits or debentures from the public and that the assumption generally made that the State would be able to raise from somewhere vast amounts of capital to be put at the disposal of such machinery is unrealistic. It needs to be emphasized that the State does not command unlimited financial resources, and if the problem of rural credit has to be properly tackled the machinery to be established for the purpose must keep in view the necessity for tapping rural savings, in order to obtain the funds necessary for its operations. That this is quite feasible for well-managed cooperative institutions is shown by the experience of several institutions, including the Alamuru Rural Bank in Madras and the Cooperative Society in Bhuvel, both of which have been able to attract deposits sufficient to meet the demands on them for credit. Urban savings cannot be depended upon to meet adequately the needs of industry and commerce as well as of agriculture. Secondly, in any scheme for the setting up of a sound and efficient system of agricultural finance, sufficient emphasis must be laid on the building up of a sound structure of primary institutions—whether cooperative credit societies or multi-purpose societies on the basis of limited liability or unlimited liability, as the case may be. The weakness of the cooperative structure seems to lie mainly in these institutions where it comes directly into contact with the rural people rather than in the superstructure, and more thought and effort should be devoted to their development. No other alternative machinery of a suitable type appears to be available at the primary level, and the generally favoured plan now is the establishment of strong multi-purpose societies able to employ competent paid staff, for each group of contiguous villages. We believe that these attempts should be encouraged and supported ; particularly by providing the needed staff for inspection and supervision, by the Provincial Government. The principle of subsidising cooperative institutions to a limited extent in the initial years, in view of the risky character of rural finance, the low rates of interest they are attempting to establish, and the need to provide the necessary secretarial and supervisory staff appears to be unobjectionable, although we do feel that the proposals sometimes put forward that the State should find subsidies for all sorts of purposes to the extent of crores of rupees do not seem to be based on sufficient appreciation of the implications, financial and otherwise. Even as regards the superstructure, we believe that while the establishment of new organisations, such as agricultural credit corporations or banks, may be necessary in some regions, full use should be made, as far as possible, of the existing institutions, new institutions or machinery being set up only to the extent to which such procedure becomes unavoidable.

(iii) *The machinery for long-term credit.*—The Gadgil Committee have recommended that long-term credit on the mortgage of land, which should increasingly be made available for productive purposes, should be supplied through land mortgage banks where they are established ; where they are not, it should be supplied by the agricultural credit corporations to be established which would deal with borrowers through their branches, since the provision of all types of credit by a single agency would lead to better co-ordination of credit. Dr. Naidu has also recommended the replacement of the present cooperative land mortgage banks by Government-owned banks with their own branches, the object being the avoidance of delay and red tape and the reduction of costs. But other authorities such as the Nanavati Committee, and the 15th Registrars' Conference have taken a different view and expressed themselves against the merging of institutions providing short and intermediate credit with those providing long-term credit. The main reasons for the provision of these different types of credit by different institutions are that the funds for long-term credit are to be separately raised, mainly by debentures, and that a special procedure such as the examination of the title of the land, its value, etc., which would unavoidably take some time, is necessary in making long-term loans. Even if the same institution provides long-term mortgage credit, as well as other credit, the two activities would have to be administered by separate departments, in which case there does not appear to be any reason why a structure of land-mortgage banks as developed in Madras should not be developed elsewhere, provided the basic conditions for working successfully a system of mortgage credit are present.

Proposals have of the late been made for the establishment of a Central Agricultural Credit Corporation for the country as a whole on the model of the Industrial Finance Corporation, with the object of providing medium and long-term credit to substantial agriculturists directly, and to other agriculturists through cooperative organizations or borrowers' groups. It has been suggested that the corporation may also serve as an "apex" organization for provincial cooperative banks. We, however, feel that such proposals are inopportune at present for several reasons. Agrarian legislation and tenure systems are widely different in various regions, and a central institution will not be able to finance agricultural development directly through medium or long-term loans ; the establishment of provincial land mortgage banks and primary institutions is, therefore, the first essential step. Technical advice and assistance on the issue and redemption of debentures is already available from the Reserve Bank, which has also expressed its willingness to purchase land mortgage bank debentures to a limited extent, and to make advances on their security. No separate apex bank for provincial cooperative banks was considered necessary by the Central Banking Enquiry Committee, and, in our opinion, it does not appear to be necessary now that increasing assistance for short-term finance is available to them from the Reserve Bank of India.

(iv) *The role of commercial banks in rural credit.*—It is sometimes assumed that commercial banks have never played, and could never play an important part in rural credit, and that their extension to rural areas would only serve to drain away available funds through deposits for urban investment. This appears to be an extreme point of view. Although commercial banks do not provide long-term or medium-term credit to agriculturists, nor short-term credit for agricultural operations, they are in

a position to provide short-term credit for financing the marketing of agricultural produce, either directly to agriculturists, or indirectly through traders. Their present contacts are largely with traders whom they finance to the extent of crores of rupees every season, but such contacts are not without their value to the agriculturists and the various direct and indirect services they render are not only essential but also constitute an integral part of the rural credit system. It would be possible for the commercial banks to provide finance for the marketing of produce to a much greater extent than at present when a number of regulated markets are established, the grading and standardisation of agricultural produce are developed and satisfactory warehousing arrangements are made. The absence of sufficient number of warehouses has been a serious impediment in the way of such development, and we propose to deal with this separately in Chapter IV of this Part. Referring to the need at present for "as varied a system of institutional finance as possible", the Gadgil Committee said, "all reasonable facilities which do not in any way hamper the growth of the co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit organization". In general, we believe there is no reason why commercial banks with the extension of their branches to small towns should not in course of time be able to play a greater part in providing credit to rural areas in the shape of advances against produce, loans for the purchase of expensive equipment such as electric pump and oil-engines, and loans on the security of gold etc. We also believe that both in respect of functions as well as clientele there can be a broad division of labour between commercial and cooperative banks, and their activities can thus be coordinated.

(v) *The special needs of distressed areas and classes.*—The Gadgil Committee proposed that the credit needs of areas subject to famine and drought and other natural calamities and of classes which may be particularly handicapped such as backward tribes, and cultivators of uneconomic holdings should be dealt with by an organization specially established for relief and rehabilitation, on the lines of the Farmers' Home Administration of the U. S. A. Provision of credit to such areas and classes will have to be combined with a substantial degree of relief, measures calculated to improved their economic condition and productive efficiency, and a very great degree of supervision and control, both as regards productive activity and the use of credit. The need for specialised agencies to deal with the problems of such "disadvantaged" groups has been accepted by others who have examined the question, such as the Nanavati Committee, but the administrative and financial implications of these recommendations have not yet been carefully examined. In view of the large number of agriculturists who would have to be classified as "disadvantaged" under Indian conditions, as all those who are not clearly credit-worthy would come under this definition, it is obvious that a satisfactory machinery to deal with all of them and provide them with the finance needed, by grants as well as loans, will have to be developed very gradually and the task will, in the first instance, have to be undertaken on an experimental basis. In the meantime, the difficulties of providing any cut-and-dried remedy to deal with the problems of such "disadvantaged" groups must constantly be kept in mind, and the implications of the various measures likely to disturb the existing machinery for credit should be weighed carefully before putting them into effect.

(vi) *The role of the money lender.*—All those who have examined the question of rural credit have agreed that at present the private money-lender, agriculturist or otherwise, plays the major role in the provision of credit, and

that although in the long run he is to be replaced by institutions, his presence has to be tolerated as a necessary evil for many years to come. It has been suggested that his activities should be strictly regulated and adequate inspecting staff provided to enforce the provisions of such regulatory legislation. Dr. Naidu has, in fact, suggested that money-lenders should be made compulsorily to join cooperative societies and that all their transactions should take place through such societies. These proposals, however, overlook the fact that such legislation has already had the effect of driving a large number of money-lenders out of business, or encouraging them to resort to evasive practices, resulting in restricted and costlier credit, particularly to the smaller agriculturist. It should also be remembered that even the attainment of targets aimed at reaching all credit-worthy agriculturists is expected to take ten years in Bombay, while the non-credit-worthy section of the population would apparently have to wait quite a long while before institutional machinery of any type could reach it. We would suggest, therefore, that in implementing legislation intended to restrict and control the activities of money-lenders, Government should take note of the pace at which alternative machinery of a satisfactory type can be made available to agriculturists, and that nothing would be gained by depriving the majority of agriculturists of even the existing facilities for credit long before alternative supply could be arranged.

(vii) *The effects of agrarian legislation on credit institutions.*—Referring to the legislation for regulating the activities of money-lenders, the Gadgil Committee stressed the necessity to exclude from its scope Government agencies, cooperative institutions and scheduled banks and such non-scheduled banks as fulfil certain prescribed conditions. In view of the emphasis placed on the extension of institutional banking facilities to the rural areas, we believe that it would be necessary to review the existing and proposed legislation concerning debt relief, money-lending, tenancy and land tenures in so far as it may affect the position of commercial banks, cooperative banks and land mortgage banks and, therefore, their ability to extend their services to the rural people. Although such legislation may be politically desirable to the extent it complicates the rights in land or restricts its transferability, or reduces income from land it would limit the ability of credit institutions to lend on the security of land or of crops. If, therefore, we expect the institutional creditors to play a significant role in extending rural credit and thereby help improve the productivity of agriculture, it would be necessary to re-examine such legislation and provide adequate protection to those creditors who are interested not in acquiring or holding the land but in the security available for the recovery of their dues by the sale of land, or of crops.

CHAPTER IV

PROPOSALS FOR THE EXTENSION OF BANKING FACILITIES

40. Before proceeding to examine the extent to which banking facilities could be extended to rural areas in the immediate future, and the means whereby such extension could be achieved, we may briefly state the main conclusions drawn from the survey of the existing facilities made in Chapter I as follows :—

(a) Banking facilities in this country are provided by a variety of institutions, such as the Imperial Bank of India and other commercial banks cooperative banks and societies, and post office savings banks. All these institutions have developed their own specialized functions and distinctive spheres of working, and are able to offer certain services which others cannot provide with equal facility. It is, therefore, necessary to utilize all of them to the maximum possible extent, to integrate their working, and improve their efficiency ; the overall requirements of the country demand that every healthy form of banking activity should be encouraged.

(b) Considerable expansion of banking institutions has taken place in recent years, particularly as a result of the growth of branch-banking and of the cooperative movement. Such expansion has, however, been somewhat lopsided. The majority of banking offices, particularly of the Imperial Bank and scheduled banks, are concentrated in the larger towns, while many small towns (including 492 taluka or district headquarters towns) are either not provided with banking facilities at all, or are served only by non-scheduled banks. The expansion has also several unhealthy features, and it is, therefore, not unlikely that a part of the structure as it has been built up during the war years may not be able to withstand the impact of economic forces, or may have to be eliminated as being unsound when the provisions of the Banking Companies Act have been fully implemented.

(c) Banking institutions, commercial or cooperative, have also not expanded uniformly throughout the country. In general, it may be stated that many of the regions covered by the former Indian States and some provinces are less developed, while the provinces of Bombay, West Bengal, Madras, Uttar Pradesh and the State of Travancore and Cochin have a large number of banking offices. So far as cooperative institutions are concerned, while they are strong and well-developed in Bombay and Madras, the position in many other regions is not so satisfactory.

(d) At present emphasis must be on the consolidation and stabilisation of the sound and healthy part of the structure already built up, improvement in its efficiency, and on its orderly growth, particularly in regions where progress has not been adequate in the past.

41. *Scope for extension.*—Among the services rendered by banking institutions, the most important for the rural people are the receipt of deposits, particularly fixed and savings deposits, and the making of advances. There appears to be some scope for promoting the former by popularising the saving

habit by sustained propaganda and organised group effort, and by an expansion in the number of sound banking offices functioning in semi-urban and rural areas, and of the postal savings banks. The need of the rural areas for advances is considerable and is capable of continued increase, and as noticed in the previous chapter, this could be met in increasing measure by the fullest use and gradual development of a variety of credit institutions, the most important among which are cooperative banks and cooperative credit, multi-purpose and marketing societies and land mortgage banks. The scope for the development of such institutions in the present conditions can be said to be unlimited, and, in view of their special suitability and importance for the dispensation of rural credit it is obvious that their expansion, improvement and stabilisation should receive special attention and assistance. This appears to be particularly true in the states where the cooperative movement can hardly be said to have made any progress.

Among other services, remittance facilities are needed by the rural people themselves only to a limited extent, and this is best served by the postal remittance system. Institutions such as cooperative societies and banks functioning in the rural areas, however, need remittance facilities on a large scale and these have to be provided by treasuries and sub-treasuries, branches of the Imperial Bank of India and, to some extent, also by the post offices. Facilities for the safe custody of valuables are not available in the rural areas. The consensus of opinion is that these facilities are not likely to be required by the rural people for some time to come because of their unwillingness to entrust their valuables to any person or institution. A small section, however, thinks that, in view of the prevalent unsettled social conditions and insecurity, many affluent persons from rural areas would like to take advantage of safe deposit facilities, if available, and there is, therefore, scope for commercial banks to expand their services in this field also.

42. *The agency for extension.*—We have stated that considering the vast size and requirements of the country, it is necessary that all types of healthy banking activity should be encouraged. The extent to which such expansion would be feasible would differ in the case of different institutions. On the whole, the Imperial Bank of India and other commercial banks are not likely to find it worthwhile, under present conditions, to go beyond taluka (or tehsil) headquarters towns, mandis or market towns, or other towns of some commercial or industrial importance. They should be allowed and encouraged to expand to this extent, subject to the control exercised by the Reserve Bank on the opening of branches for maintaining healthy banking conditions. In view of the services that the Imperial Bank, as agent of the Reserve Bank would be able to offer to other banks and cooperative institutions in respect of remittance of funds, keeping of accounts and exchange of notes and coin an expansion in the number of its offices would be desirable in the interests of the rural areas as well as of the banking system as a whole. Cooperative banks, whether they are branches of the provincial cooperative banks or of central banks, can be established both in large and small towns and go deeper into the rural areas than commercial banks, because their primary function is the financing of cooperative societies established in the villages. Urban banks which are established in many towns in Bombay and Madras, would be able to offer facilities both to urban people and to individuals in the nearby rural areas, and in view of their relatively low costs of establishment and

operation, can go up to places smaller than the taluka towns. Small villages can only be served by cooperative societies, the expansion and reorganization of which has already been accepted as an important objective by all Provincial and State Governments. There is also need for an increase in the number of rural post offices doing savings bank business and to improve their working.

43. *General considerations concerning the extension of banking facilities in rural areas.*—In making proposals for the extension of banking facilities to rural areas, certain considerations of a general nature should be borne in mind. A preliminary question that arises in this connection is whether the state should at all take any positive measures to bring about the extension. It has been pointed out by some that the extension of banking facilities to a particular area should follow an effective demand for them and not precede it, that banking should not be superimposed from above, and that it should be allowed to develop gradually as a natural process. Others have taken the view that under conditions now obtaining in our country, the development of banking, left entirely to itself, would be a slow process, and Government should, therefore, take the initiative in adopting positive measures to assist the sound banking institutions to extend their activities to rural areas. Our own view is that although it is not desirable to expand the banking system hastily and in advance of probable demand, it would not be correct for Government to assume an entirely passive attitude, and they should take such steps as would create the necessary atmosphere for, and assist the promotion of, orderly development of banking, which may not take place by itself, in view of the risks, impediments and other difficulties that hinder progress at present. The measures that are proposed to be taken by Government for this purpose should, however, be such as can be implemented immediately, and should take note of the present financial and administrative limitations. Such measures should not, therefore, include projects like the establishment of entirely new organizations for which large capital buildings, and personnel would have to be found by the State, or other steps that would necessitate considerable additional capital outlay, or current expenditure.

44. *Rejection of some proposals for assistance to banks.*—These general considerations lead to our rejection of two proposals made by several individuals and institutions for assistance to banks to encourage their expansion to rural areas. One is that those banks which are willing to open branches in rural areas should be offered, among other facilities, cash subsidies to cover, either wholly or partly, the deficits they are likely to experience for some year in the initial period. We do not recommend the acceptance of this proposal for the following reasons :

(i) Subsidies would have to be given to certain banks selected for different regions on the basis of their soundness or other criteria, and cannot obviously be given to all banks. However careful and impartial, the selection may be, it is bound to lead to charges of discrimination and favouritism and may also indirectly reflect on the credit of other banks which have not been selected for this purpose.

(ii) The analogy of protection given to some industries by Government is not applicable to banking which can no longer be considered an " infant industry " and does not suffer from serious foreign competition.

(iii) Although such subsidies are demanded for a short initial period, the general tendency is to go on pressing for their continuance on various grounds, and thus perpetuate them.

(iv) In the field of banking, initial losses at the new branches are not unusual and if the banking prospects of the area have been carefully assessed such losses should prove to be only temporary, and should be made up from profits at other branches in anticipation of future gains.

(v) The present financial position of the Central, Provincial and State Governments in India is not such that they could spend substantial sums to subsidize the banking system. The necessity for a substantial retrenchment and the pressing demands made on Government for several essential activities make it impossible for them to find the funds necessary for such subsidies.

(vi) The subsidizing of branches of commercial banks is opposed by cooperative banks and societies which are already being assisted, directly or indirectly, by Government. The grant of subsidies to co operative institutions is justified on various grounds ; such institutions undertake business which from the commercial point of view, is regarded as risky, are attempting to provide credit to rural areas at low rates of interest, and their primary object is not profit to shareholders but provision of cheap credit to members. The aims and objects of commercial banks are, however, different, and the offering of subsidies to them for entering into business which would, to some extent, be competitive with that of the co operative institutions would be objected to by the latter, as being inconsistent with the accepted policy of the State in India.

The second proposal is that Government (or the Reserve Bank of India should place with the rural branches opened by selected scheduled banks interest-free deposits to the extent needed to make up a minimum level of deposits at each branch (estimated at about Rs. 10 lakhs) for an initial period without which such branches would not be remunerative. The proposal was earlier made by the Central Banking Enquiry Committee who said : " We accordingly recommend that with a view to encouraging the opening of branches by joint-stock banks, the Reserve Bank may place for the first five years, with every new branch opened by an approved joint-stock bank at a centre where there is no joint-stock bank, a deposit of such sum on such terms and conditions as it may consider necessary ". It is now being put forward by several people. We have noticed in Chapter I of Part I that the Central Advisory Council of Industries had suggested a similar plan. This proposal cannot be accepted firstly because it would be inconsistent with the scheme of the Reserve Bank of India Act, which requires all Government balances to be centralised with the Reserve Bank and also requires the scheduled banks to maintain certain minimum balances with that Bank. Secondly, the maintenance of interest-free balances with certain branches of scheduled banks would lead to the locking up of Government balances to the extent of several crores which may, in view of their heavy financial commitments, prove embarrassing to Government. As will be seen from Chapter I of the Part III of this Report, the balances which Government at present keep at treasuries are very small and the impression that large Government balances are being kept outside the banking system is not correct. The difficulty of selecting particulars banks to be entrusted with balances in this manner and the objections likely to be raised

by co-operative banks mentioned in connection with the proposal for direct cash subsidies are relevant to this proposal also.

We are, therefore, of the view that the grant of direct cash subsidies or interest-free balances cannot be accepted as the normal method of assisting banks to expand to rural areas except, perhaps, to a limited extent in the case of co-operative institutions. The types of assistance or encouragement to be offered must generally be in the nature of indirect stimuli and should be available to all banking institutions. Our proposals, therefore, are of two types : (a) General proposals for assistance to all banking institutions, consisting of proposals for the removal of existing impediments and for the provision of some indirect types of stimuli available to all sound banks (b) Special measures for assistance or improvement applicable to co-operative banks and societies. Apart from these, the promotion of banking activity must be through an increase in the number of post office savings banks and branches of the Imperial Bank of India.

45. *Impediments to the extension of banking facilities and proposals for their removal.* (a) *The "deficit" character of Indian agriculture.*—The most important impediment to the expansion of banking in the rural areas is the fact that agriculture, as organized at present in this country, is a "deficit" industry. Unless it is put on a sound basis by a comprehensive rural development programme, covering long-term measures such as the reform of land tenures, consolidation of holdings, development of irrigation, utilisation of electric power, multi-purpose projects, development of subsidiary industries, provision of proper marketing facilities, improvement of agricultural technique, etc., the effective demand for banking facilities cannot develop. This impediment can, therefore, be removed only gradually. As already noticed, however, rural development needs a corresponding development of credit facilities and the measures for the extension of banking facilities should, therefore, be undertaken simultaneously with other measures.

(b) *Lack of communications.*—Another impediment in the way of the extension of banking facilities to rural areas is the lack of good communications. The fact that most of our villages are not connected with urban centres, market towns, or railway stations by satisfactory all-weather roads is well-known and this constitutes a serious obstacle to the improvement of organized marketing or to the development of banking. Our attention has been drawn by the Indian Road Transport and Development Association to the vital connection between satisfactory road communications and banking development, and to the fact that during recent years the five-year road plans of the Central and State Governments have been drastically cut down as a part of the anti-inflationary programme. It is obviously impossible to envisage the setting up of an efficient banking system without a well-developed transport system, and we trust, therefore, that at the earliest possible opportunity, when the financial situation permits, Governments would review the whole position and increase the provision for road development. In this connection we would like to draw the attention of Government to the need for co-ordinating road plans with other plans for economic development such as those for railway, telegraph, postal and banking development. For instance, it appears that one of the reasons why the postal department is unable to go ahead with its plans for opening post offices is the difficulty of access to several villages for transporting cash

Similarly, some banks have also informed us that they are not able to open pay offices or godown centres in certain areas for want of adequate transport facilities and communications with their branches from which effective control could be exercised.

(c) *Illiteracy.*—The illiteracy of the rural population and their inability to handle pass-books, cheques, etc., or to deal with banks in general is another impediment. This again can be resolved only gradually by the extension of primary and adult education. Several people, however, believe that illiteracy by itself need not be a serious obstacle in the way of rural people dealing with banks. Co-operative societies and banks, we are told, have not found this a serious difficulty because the management of these institutions and their members know most people in the villages, and can easily identify them. Banks could, it is stated, arrange for identification of their illiterate customers by the attestation of their thumb impressions by local persons of importance, such as village officials, by keeping a record of their birthmarks, or where necessary facilities exist, by obtaining the photographs of their customers. It is also suggested that dealings with villagers would be comparatively easier if the regional languages are used in the forms and books of banks, as co-operative institutions are already doing. Although these suggestions are not suitable for universal application, some of them could, no doubt, be given a trial by banks where conditions are favourable to the adoption of such expedients.

(d) *Conservatism of villagers.*—The conservatism and unwillingness of the rural people to deposit funds in banks is reported to be another impediment. This is no doubt based on long-standing traditions and habits and suspicion of others, and has been somewhat accentuated by recent bank failures. It has been suggested that to overcome this, the Reserve Bank, or Government, should guarantee the soundness of banks, and that the system of deposit insurance as prevalent in the U. S. A. should be developed in this country. The introduction of the deposit insurance scheme in the U. S. A., we understand, helped considerably to stabilise the banking situation in that country. Although we do not consider that the time is as yet ripe for the introduction of a similar measure in India, we suggest that, as soon as the Reserve Bank's machinery for the control and inspection of banks has been fully developed, and a sufficient number of banks licensed under the Banking Companies Act, a committee of experts should be appointed to go into the question and see whether a scheme limited to banks holding a license under that Act cannot be put into operation in this country.

Other suggestions that have been made in this connection are that banks should associate with themselves some local persons of importance as directors or employees so that confidence would be created in the minds of the villagers. Co-operative banks and the smaller regional banks are somewhat advantageously placed in this respect and the adoption of this practice on a larger scale than at present is commended. Regular and persistent propaganda to educate the people in the facilities provided by banking institutions and measures to bring people into contact with banks would also be useful. Such educative propaganda should not, however, be entirely left to Government, but the official efforts in this connection should be supplemented by associations of banks as is done in the U. S. A. It is also important that the officials of banks should deal sympathetically with the rural people, and take active interest

in rural social life and agricultural problems. Banks have developed a good deal in this direction in the U. S. A., and provide to their farmer clients a variety of services, including technical advice and information on farming problems.

(e) *Inability of Banks to pay a high rate of interest.*—It is pointed out that since rural people who have savings can always lend their money in the villages at high rates of interest, the present low rates of interest which banks can offer on deposits will not prove attractive to them. It is, therefore, suggested that at their rural branches, banks should be prepared to pay slightly higher rates of interest than those paid in urban areas, and that for this purpose, they should be subsidised. The suggestion is, however, opposed by most bankers and others who consider that this would neither be useful nor desirable. According to them, the rates that banks or other financial institutions can pay on deposits would never be comparable to those that can be obtained from money-lending, that a slight rise in the rate of interest would offer no attraction, and that depositors should gradually be educated to look to the security of their funds and not to the prospect of high interest-rates, which are generally a sign of the unsoundness of the party offering them. It is also stated that rates of interest should be governed by overall considerations of the conditions in the money-market and that there should be no discrimination between rural deposits and urban deposits. We agree with these views. Primary co-operative societies may, however, be in a position in certain cases to pay higher rates of interest on local deposits than those offered by co-operative financing banks, since their field of operation is restricted and the rate they allow on deposits would be comparable to the lending rate of the co-operative banks. In the case of those persons who are borrowers as well as lenders of funds the rate at which advances are available from banks should prove more attractive than a somewhat higher rate of interest on deposits.

(f) *High operating costs.*—The opening by banks of new branches in semi-urban or rural centres is found to be difficult because of the high operating costs in relation to the earning capacity of such branches. The position in regard to this has of late become particularly difficult in view of the general increase in the running costs of banks, and if the present trend continues, it is feared that many banks may be forced to close a number of their uneconomic branches; in fact, the process of rationalization of branches, it is learnt, has already begun in a number of banks. If banks are to be encouraged to expand their operations to outlying areas, steps will have to be taken to assist them in overcoming this handicap as far as possible. One of the factors which has added to the difficulties of banks in this respect and to which our attention has been particularly drawn by the commercial as well as the co-operative interests is the extension of Shops and Establishments Acts and of awards of Industrial Tribunals to branches of banks in the mofussil. Small branches have necessarily to be run on the basis of minimum staff and compliance with the requirements of these acts, which binds them to certain fixed hours of working and necessitates the maintenance of a number of additional records and registers, adds considerably to their their work and other difficulties. Work at the smaller branches is of an intermittent character, there being heavy work during certain seasons and little work during other periods, and unless a certain amount of elasticity and informality is permitted in the case of such branches, it would be difficult to run them and popularise banking among rural people. The enforcement of awards of Industrial Tribunals is likely to result in salary

scales, fixed largely with reference to conditions obtaining in large urban centres, being made applicable to the smaller branches, and will thus make the maintenance of such branches unremunerative for banks. Costs of living in the smaller towns would be lower than in the larger cities, particularly for locally recruited staff; in any case, it will have to be recognised that the salaries which banks could pay to their staff would have to be related to the paying capacity of the areas concerned, as no bank could be expected to maintain indefinitely branches which are uneconomic, simply because its overall profits are good, or its income at other offices is considerable. We, therefore, recommend that such acts and awards should not be made applicable to the offices of banks situated in towns having a population of less than 50,000, the population figures in the last census being adopted until a new census has been completed.

The other factors which raise the cost of providing banking facilities to the rural areas are the cost of security arrangements and of remitting funds, and the absence of adequate facilities for conversion of notes and coin, which are dealt with in the next paragraph. Provided our recommendations in regard to these matters are accepted, losses to banks at several of the centres which are now inadequately served by banking institutions may prove to be no more than an initial handicap, and with the economic development of the areas and the growth of business, banks should be able to maintain their offices at a larger number of places than at present. This should be so particularly in the case of co-operative banks whose operating costs are generally lower than those of the larger commercial banks.

(g) *Legislative restrictions.*—We have referred in Chapter III to the necessity for the review of the effects of agrarian legislation on the credit structure, particularly the position of banks. The Imperial Bank of India and several other banks have pointed out to us that such legislation has proved a hinderance to the expansion of their activities in the countryside. Co-operative institutions and scheduled banks, or loans due to them, are exempted from the provisions of most of the acts dealing with moneylending and debt relief, but non-scheduled banks are not protected to the same extent. In certain provinces even scheduled banks do not enjoy exemption from acts dealing with the regulation of money-lending. In view of our belief that along with the co-operative institutions commercial banks should, and could, play a larger role than at present in rural banking, and of the fact that with the applications of the Banking Companies Act, non-scheduled banks are subject to the same measure of legal control by the Reserve Bank, we recommend that existing legislation concerning money-lending, debt relief and allied matters should be reviewed and amended so as to place all commercial banks on the same footing as the co-operative institutions.

46. *General proposals for assistance to banking institutions.*—We have recommended that the stimulus to be provided to the banks for the extension of their activities should consist of the removal of impediments and the provision of assistance which any sound bank can take advantage of. In the paragraph above, we have discussed the principal impediments hindering the expansion of banking and the lines on which they could be removed. We now proceed to make certain proposals for assistance to banks.

(a) *Remittance facilities.*—Banks are dependent for their successful functioning on the existence of facilities for the easy and cheap remittance of funds from centre to centre in order to collect funds where they are surplus for the

time being, and to use them where they are most urgently required. If such movement of funds is difficult or costly, banks are put to considerable inconvenience. It has been represented to us that banks are unable to accept deposits at rural centres because the movement of funds between the various centres is still difficult and costly.

In the more advanced countries such as the United States and the United Kingdom, banks are able to transfer their funds through the facilities available from the Central Bank or by reciprocal arrangements with other banks, without any charge or only at a very nominal charge. In many cases the charge for banks is probably no more than the cost of sending telegrams. In India, however, although some steps have been taken, since the establishment of the Reserve Bank, to increase the facilities and lower the rates for banks, the position is still nowhere near the stage at which funds could move freely from one place to another, without any charge. The following facilities are at present available to scheduled banks, non-scheduled banks, co-operative banks and societies and indigenous bankers through the offices of the Reserve Bank of India, branches of the Imperial Bank of India and treasuries and sub-treasuries maintaining chests of the Issue Department of the Reserve Bank.

Scheduled Banks.—A scheduled bank is entitled to remit by mail or telegraphic transfer between the accounts kept by its offices, branches, sub-offices and pay offices at an office, branch or agency of the Reserve Bank as follows :—

(1) Under the Reserve Bank of India Scheduled Banks Regulations :

- (i) An amount of Rs. 10,000, or a multiple thereof between its accounts at the offices and branches of the Reserve Bank, free of charge.
- (ii) Once a week an amount of Rs. 5,000, or a multiple thereof, to the principal account which it maintains with the Reserve Bank from any place at which it has an office, branch, sub-office or pay office, and at which there is an agency of the Reserve Bank, free of charge.
- (iii) Other remittances to its principal account, subject to a charge of 1/64 per cent. and also subject to a minimum charge of Re. 1.
- (iv) Other remittances between accounts maintained at the Reserve Bank or its agencies :—

Up to Rs. 5,000 . . .	1/6 per cent., minimum Re. 1.
Rs. 5,000 and over . . .	1/32 per cent. , minimum Rs. 3-2-0.

(Actual telegram charges are recovered in addition.)

(2) Under the Reserve Bank of India Remittance Facilities Scheme :

- (v) Telegraphic Transfers and drafts in favour of third parties :—

Up to Rs. 5,000 . . .	1/16 per cent., minimum Re. 1.
Over Rs. 5,000 . . .	1/32 per cent., minimum Rs. 3-2-0.

(Actual telegram charges are recovered in addition.)

Drafts for small amounts in favour of third parties are issued at 1/8 per cent., minimum Annas 4.

Non-scheduled banks co-operative banks and societies and indigenous bankers.—The rates at which telegraphic transfers, drafts and mail transfers are issued to them are as follows :—

Up to Rs. 5,000	. 1/16 per cent., minimum Re. 1.
Over Rs. 5,000	. 1/32 per cent., minimum Rs. 3-2-0.

(Actual telegram charges are recovered in addition.)

For co-operative banks and societies the minimum exchange on drafts and mail transfers for small amounts is Annas 4.

The provincial co-operative banks which maintain accounts with the Reserve Bank and keep balances equal at least to 2-1/2 per cent. of their demand liabilities and 1 per cent. of time liabilities in their accounts have been granted facilities for transfers of funds to the same extent as are enjoyed by scheduled banks.

We propose that, except for small amounts for which the existing rates and minima may be allowed to continue, remittances allowed to banks, commercial as well as co-operative, co-operative societies and indigenous bankers under the Reserve Bank of India Remittance Facilities Scheme should hereafter be made available to them at the under noted rates :—

Up to Rs. 5,000	. 1/32 per cent., minimum Re. 1-0-0.
Over Rs. 5,000	. 1/64 per cent., minimum Re. 1-9-0.

(Actual telegram charges to be recovered in addition.)

In the case of scheduled banks, these rates should apply to remittances on their own account, as well as those on behalf of third parties.

The special facilities available to a scheduled bank under the Reserve Bank of India Scheduled Banks Regulations for remittance of funds mentioned in (ii) and (iii) of sub-paragraph (1) above are at present dependent on the bank maintaining an account with the Reserve Bank, or the Imperial Bank, at the place from which the remittance is desired and also on its maintaining a branch of its own at that place. These conditions should be removed, and in future the said facilities should be made available to a scheduled bank whether or not it maintains an account or an office at the place from which the remittance is desired. We also recommend that remittances may be made from the branches of the Imperial Bank to any account with the Reserve Bank, and not merely to the principal account. The feasibility of extending similar facilities to provincial co-operative banks and their affiliated central co-operative banks should also be examined by the Reserve Bank so as to put them on a par with scheduled banks.

The liberalisation of remittance facilities on these lines will, to some extent, encourage banks to open more branches in the country-side by reducing the cost of operation of such branches, and would enable non-scheduled banks to comply more easily with the requirements of Section 24 of the Banking Companies Act in respect of maintaining 20 per cent. of their demand and time liabilities in cash (which includes balances with the Reserve Bank and its agent), unencumbered approved securities, and gold. It would also lead to a freer transfer of funds between metropolitan and upcountry centres resulting in a better adjustment between the supply of, and demand for, funds, and a consequential lowering of rates of interest all over the country and reduction

of wastage arising from the practice of cutting currency notes for purposes of remittance to the extent to which it still persists.

We are aware that the limitations as regards the amounts to be accepted for remittances from the treasury agencies of the Reserve Bank would still remain and if the benefit of the cheaper rates is to be of real use, it is necessary to enlarge the scale on which remittances will be available through treasuries and sub-treasuries. The main difficulty in doing so, however, arises from the inability of treasuries and sub-treasuries, as organized at present, to take up additional work, but we trust that when the reforms suggested by us in Chapter I of Part III have been carried out, it would be possible to do away with the limits altogether, and in the meantime, everything possible will be done to relax and liberalize the limits.

(b) *Facilities for the conversion and exchange of notes and coin.*—It has been represented to us that banks and the public in mofussil centres experience a certain amount of difficulty in obtaining fresh notes in exchange for old ones, converting notes of lower denominations into higher ones and *vice versa*, and in obtaining small coin from the branches of the Imperial Bank and treasuries and sub-treasuries. Facilities for such exchange and conversion of notes are essential to banks because the rural public continue to use, and also pay into banks, a large quantity of small notes and coin. It is pointed out that the branches of the Imperial Bank, in the mofussil in particular, do not provide adequate facilities in this connection, mainly because they have not expanded their organization to the extent necessitated by the vast increase in the note and coin circulation during the war years. The Imperial Bank, on the other hand, contends that the demands made by other banks on their branches are often unreasonable and that there is a tendency among some banks to make use of the facilities available from the Imperial Bank more for the safe keeping of funds than for the actual exchange and conversion of notes and coin. It is stated the difficulty is felt by banks largely because they have not made adequate arrangements of their own for the safe custody of their balances. We do not propose to go into the merits of these complaints but since larger facilities are considered essential to the extension of banking offices to the less-developed areas, we recommend that arrangements should be made with the Imperial Bank as well as with treasuries and sub-treasuries to deal with the requirements of banks in as liberal a manner as possible. With some addition to the staff of treasuries and branches of the Imperial Bank and by mutual adjustment, it should be possible to avoid most of the complaints now being received. It is the statutory responsibility of the Reserve Bank to see that adequate facilities for exchange are provided throughout the country, and they should arrange that there is no justifiable cause for complaint either against the branches of the Imperial Bank or treasuries and sub-treasuries. In this connection, we suggest that, where tenders are unduly large and cannot be counted and verified in detail immediately, the feasibility of introducing at the branches of the Imperial Bank and treasuries and sub-treasuries the practice of accepting tenders on a guarantee basis, on the lines of the procedure in force at the offices of the Reserve Bank should be examined.

(c) *Facilities for the safe keeping of funds.*—In small towns there is a dearth of strong and pucca buildings suitable for bank premises, and if banks are to make arrangements for good buildings, strong rooms and for safe-guarding their treasure, the necessary investment and expenditure would be very high and would raise the operating costs to an uneconomic extent. To

overcome these difficulties and to enable banks to open branches in smaller towns, we recommend that they should be permitted to keep their iron safes and chests for safe custody in the strong rooms of treasuries and sub-treasuries. This facility is already being provided to cooperative banks in some places in some of the provinces, and we recommend that it should be extended to all banking institutions in all regions.

(d) *Promotion of warehousing.*—It has long been recognized that the lack of proper facilities for the storage of warehousing of agricultural produce has been a serious obstacle in the way of increasing the scale of advances against agricultural produce by co-operative marketing societies or commercial banks. Inviting attention to this important defect, the foreign experts associated with the Central Banking Enquiry Committee remarked : " That survey leads to the conclusion that considerable improvement of the credit situation and the money market in India can only, under present conditions, be achieved by improving and extending, as far and as soon as possible, the storage and warehousing of goods in order to enlarge the basis of the credit system ".

The Central Banking Enquiry Committee believed that for making advances against goods, for the creation of agricultural paper backed by warehouse receipts, and for enabling the cultivator to wait till he can market his produce under favourable price conditions, warehouses were necessary. They, therefore, recommended that " Provincial Governments should consider the desirability of advancing long-term loans at concessional rates of interest to co-operative societies to build godowns in centres which provided good markets ". They also proposed that the Railway Board should examine the feasibility of constructing railway warehouses at selected centres or allowing private parties to build such warehouses on favourable terms. A draft bill for the licensing of warehouses was also included in their report.

The question of enacting appropriate legislation for licensing warehouses was taken up by the Reserve Bank which circulated a draft bill for this purpose to the Provincial and State Governments. On the model of this bill, acts have been passed in Bombay, Madhya Pradesh and Travancore and Cochin ; a bill has also been introduced in the legislature of Madras. In spite of this, no independent warehouses have so far come into existence. Even the construction of godowns by co-operative marketing societies which have been exempted from the rule that the warehouseman should not lend on the security of, or deal in, the produce pledged with him has not made much progress. The Government of Madras have, since 1927, been giving free grants of 25 per cent. of the cost and long-term loans at $3\frac{1}{2}$ per cent. interest up to 50 per cent. of the cost to co-operative societies for the construction of godowns ; they have recently decided to liberalise this assistance by increasing the proportion of grants to 50 per cent. In spite of this encouragement, progress has been somewhat slow and only 36 godowns have been constructed since the inception of the scheme. A small provision has been made in the Province of Bombay also for a similar purpose, but on the whole, it is clear that without greater initiative and assistance from the State much progress in this direction is not likely to be achieved. The importance of making adequate provision for warehousing has become apparent from the difficulties experienced recently with regard to the provision of proper storage for food-grains. Both commercial and co-operative interests have made strong representations to us on this subject, and are of the unanimous view that without active steps for the promotion of warehousing, it would not be possible to extend banking activities in any appreciable measure to rural areas.

In deciding the future line of action in this respect, two alternatives have to be considered. Firstly, there is a scheme suggested by the Gadgil Committee that a chain of warehouses should be constructed by the State at all nuclear points of trade in agricultural produce and that this should be operated by a public corporation. The second alternative would be the provision of loans and subsidies to co-operative institutions and commercial banks for building their own godowns in accordance with certain approved specifications. Considering that co-operative marketing societies have made only limited progress so far, it would appear that the grant of financial assistance to co-operative banks and commercial banks to encourage them to establish their own godowns for storage of produce, on the security of which they could make advances, would be a more fruitful line of approach in the present circumstances. This proposal would not entail the heavy financial commitments envisaged under the Gadgil Committee's scheme, nor would it require a very elaborate organization, and as a short-term measure, appears to us to be a more feasible plan to adopt, as banks, particularly the commercial banks, could make larger funds available for this purpose than the co-operative marketing societies. We, therefore, recommend that a Warehousing Development Board should be set up, with funds contributed by the Central Government, the Reserve Bank and the Provincial and State Governments and this Board be charged with the responsibility of actively promoting the establishment of warehouses in the country. The Board would receive, scrutinize and approve applications of commercial banks and co-operative institutions for financial assistance for the construction of warehouses which would be of such specifications, and be erected at such centres, as are approved by the Board. The financial assistance to be sanctioned by the Board would take the form of a free grant of upto 25 per cent., and a loan at a specially low rate of interest for 20 years up to another 25 per cent. of the cost of godowns, the remaining 50 per cent. being* provided by the banks and co-operative societies concerned out of their own resources. Assuming the average cost of a small godown in the mofussil to be Rs. 20,000 two thousand godowns could be constructed in the next 5 years at a cost of Rs. 4 crores, and to implement this plan, the Board will have to be provided, over a period of five years, with Rs. 2 crores which will be shared by the Central Government, the Reserve Bank, and the Provincial and State Governments,

We also suggest, to encourage commercial banks to take interest in this form of activity, that banking companies should be permitted to form subsidiaries for the purpose of constructing and running warehouses, provided that not more than 5 per cent. of their owned funds are utilised for this purpose and, as an experimental measure, the certificates issued by such subsidiaries may be recognised as valid warehouse receipts by the Reserve Bank for the purpose of Section 17 (4) (d) of the Reserve Bank of India Act. The acceptance of this suggestion would, no doubt, require special precautions, and to minimise the scope for fraud, adequate arrangements should be made for the inspection of warehouses; it may also be necessary to prescribe deterrent penalties in cases of fraud.

47. *Special proposals regarding co-operative institutions.*—We have referred to the importance of co-operative banks and societies in the structure of rural finance in this country and explained why they would need special assistance and even a certain degree of subsidising in the earlier years of their establishment. The Central and Provincial Governments have recognised the vital role of co-operative institutions in rural development, and have provided them with

certain concessions and facilities such as exemption from income-tax, stamp duties and registration fees, free audit and supervision by departmental agency, priority in the recovery of dues and facilities for their recovery through arbitration or departmental procedure, permission to inspect village records and obtain encumbrance certificates free of charge, etc. The keen interest taken by the Provincial Governments in developing the co-operative movement and reorganizing it on sound lines wherever necessary has already been referred to, but a special mention may be made of the assistance being provided to co-operative banks in Bombay by Government to extend their branches to the entire province and supply credit and other banking facilities to all creditworthy agriculturists. We consider this scheme deserving of full support and worthy of adoption, with such changes, as may be necessary to suit local conditions, in other regions where the co-operative structure is reasonably sound and capable of assuming additional responsibilities. In Madras, where the movement has developed on orthodox lines and a large network of primary credit societies and urban banks, is in existence, the Registrar has put forward a scheme whereby in the large villages known as "major panchayat villages", co-operative banks would be constituted on a limited liability basis, and provide full banking facilities to the population in those places and the surrounding rural areas. These places have a mixed agricultural and urban population, and it is proposed that the banks should receive deposits, grant loans and cash credits to members for agricultural and trade purposes, make advances on the security of bullion and jewels, collect bills and cheques, issue drafts, and provide facilities for safe deposits. They would also make advances on the security of produce where a co-operative marketing society does not exist. This scheme, which is expected to extend banking facilities to a number of places where they are not available at present, would be possible only if provision is made for qualified secretarial staff for each of these banks, consisting of a secretary and accountant whose appointment and removal would be subject to the previous approval of the Registrar. It has, therefore, been proposed that for an initial period of 5 years, Government should grant subsidies to these banks to meet the cost of such staff estimated at Rs. 300 per mensem, the cost of other staff and other expenses being met by the banks themselves. We extend our general support to these proposals which constitute desirable and practicable measures capable of immediate adoption, and recommend that the Provincial Government should give the necessary financial assistance.

Special schemes for the reorganization and development of co-operative banks are also in the process of implementation in Assam, West Bengal, Bihar, Mysore, Orissa, Uttar Pradesh, and in other regions. We have taken note of these schemes and hope that with the support of the Provincial and State Governments, they will lead to the early rehabilitation of the co-operative movement on sound lines. We should, however, like to make two observations in this connection :—

(a) Firstly, if any progress is to be made and co-operative banking is to develop on sound and stable lines, it is necessary to see that the expansion at no stage outstrips the administrative capacity of the persons charged with the responsibility of running the institutions. Adequate attention should also be paid to secure well qualified and experienced staff to man the institutions in particular, the quality of audit, inspection and supervision must always be kept up and no attempt should be made to reduce the staff engaged on these duties.

(b) Secondly, care should be taken to ensure that the movement is kept free from personal or party feuds, and there is no political interference in the day-to-day working of the co-operative institutions.

In addition to the concessions now available to co-operative institutions and the facilities recommended for all banking institutions in paragraph 46, we propose that the following types of assistance should also be provided to co-operative institutions :—

(i) These institutions should be provided with facilities for remittance of funds through post offices at concessional rates. The co-operative societies functioning in the outlying areas have often to depend, for transfer of funds to and from, the central co-operative banks, on the post office which is the only agency available at the majority of the places where these facilities are required. At the present rates, these remittances are expensive, and since it is desired that co-operative societies should increasingly take to receiving of deposits, which will increase the movement of funds between the primary societies and the central financing agencies, it is suggested that the Post Office should prescribe a special schedule of rates which should be substantially lower than the normal rates, for remittances between these institutions.

(ii) Rules regarding the maximum limits up to which the co-operative societies may hold deposits in post office savings banks and the number of times per week they may operate on their accounts should be liberalized. The maximum limit up to which they may withdraw from their accounts with post offices during any week should also be raised. These relaxations are again necessary if co-operative societies are to take increased interest in the collection of deposits.

(iii) Co-operative banks and societies should be approved for appointment as authorised agents for the sale of National Savings Certificates.

In Chapter III, we have mentioned that in certain areas and regions agricultural credit corporations on the lines suggested by the Gadgil Committee may have to be established, or existing State-sponsored banks reorganized so as to serve primarily as agricultural banks for financing co-operative societies or individual agriculturists. If and when these institutions are set up, we recommend that the special types of assistance proposed above for co-operative banks should also be extended to such corporations or agricultural banks.

We have emphasized at various places in this report the need for co-operative banks and societies devoting greater attention than in the past to the promotion of thrift and collection of savings in order to obtain larger financial resources for their operations. This will not, however, make them self-sufficient, and they will continue to require considerable financial support from outside. The obvious agency from which this assistance must be forthcoming is the Reserve Bank, and in this connection, we are glad to note that the Bank has of late shown greater willingness to provide financial accommodation to the provincial co-operative and central co-operative banks for financing seasonal agricultural operations, or, the marketing of produce, and this finance has been offered at a specially low rate of interest of $1\frac{1}{2}$ per cent. While some use is being made of this facility, we consider that such assistance could be taken advantage of to an increasing extent by co-operative banks. The terms and conditions stipulated by the Reserve Bank for such finance, we are convinced, are reasonable, and do not create any serious difficulties for sound co-operative banks. We support the proposal that the period for which facilities for the discounting of bills are available with the Reserve Bank should be

extended from 9 to 12 months, and are glad to learn that steps are being taken to implement this. Greater assistance from the Reserve Bank naturally presupposes closer contact between the Reserve Bank and the provincial co-operative banks and suggests the necessity for keeping the Reserve Bank more closely informed of the inner working of the co-operative banks and enabling it to place its advice and guidance more effectively at the disposal of such banks. In the case of commercial banks, provision has been made for such close contact to develop through the machinery of inspection which the Reserve Bank is now building up. The position of the co-operative banks is, however, somewhat different in that the over-all responsibility for the supervision and control of the banks vests in the Provincial Governments who exercise the various powers through their Registrars of Co-operative Societies. Nevertheless, it should not be difficult to devise means for an effective liaison between the Reserve Bank and the co-operative banks. We do not propose to indicate the exact lines on which relations between them should be developed, but in view of the larger assistance from the Reserve Bank envisaged by us for such institutions, we believe that the help and guidance of the Reserve Bank would be valuable to the Provincial Governments and the co-operative banks, and these should be freely drawn upon.

48. *Consequential proposals.*—The proposals we have made in this chapter for the expansion of banking facilities through commercial banks and co-operative banks would require that the organization of the Reserve Bank and its agent, the Imperial Bank, and treasuries and sub-treasuries should be expanded and strengthened. To improve remittance facilities, and to provide better facilities for the exchange of notes and coin, a larger number of currency chests would have to be maintained. The number of offices of the Imperial Bank would have to be increased, and the functioning of treasuries and sub-treasuries improved. The Reserve Bank would also have to aim at establishing at least one branch or office in each major province or state, so as to be able to control the larger number of currency chests to be established, and also to place at the disposal of co-operative departments and banks the facilities, which we have suggested, should be made available to them. These aspects of our proposals would be considered in detail in Parts III and V of our Report.

49. *Future structure of banking.*—As a result of the steps now proposed and in the normal course of development, we thus envisage a system consisting of (a) the Reserve Bank of India with a branch or office in each major province or state, (b) the Imperial Bank of India and other commercial banks, extending their activities up to taluka (or tehsil) headquarters, and other semi-urban centres, (c) the provincial and central co-operative banks with their branches or affiliated primary co-operative banks, and primary co-operative societies, located in all towns or large villages or centrally situated villages, (d) State-owned or State-sponsored Agricultural Credit Corporations or Agricultural Banks or other suitable organizations, and (e) a chain of Land-mortgage Banks for each region.

50. *Proposals regarding post office savings banks.*—We have mentioned the special features of the post office savings banks in Chapter I and pointed out how they are particularly well-suited to the collection of savings from the rural areas. As an agency of Government, they enjoy the confidence of the public which is specially valuable in areas where the banking habit is not fully developed or in times when, for any reason, there is a certain amount of mistrust of banks. They provide a large net-work of offices spread out in the country, and are also capable of being developed without considerable expense.

Savings bank activity constitutes only one of the many functions of the post offices and can, therefore, be carried on economically, which is not possible in the case of other banking institutions. We, therefore, recommend that the number of offices doing savings bank work in the rural areas should be increased, and the following steps should be taken to improve their working and to enhance their usefulness to the public and Government :—

(a) At present, savings bank work is treated only as a subsidiary function of the post office, and adequate attention does not appear to be paid to the promotion of that activity. There seems no desire on the part of the post office personnel to seek or solicit accounts, and in fact a desire to avoid such work as far as possible is noticeable in certain cases. This attitude should be changed, and the persons in charge of savings bank work should take more active interest in the promotion of this line of activity and should deal with depositors in a helpful manner.

(b) In the opening of new post offices, the desirability of tapping rural savings should be given due emphasis. For instance, where large public works and projects are in execution, and large sums of money are being spent, it should be possible to open new offices, and collect fair amounts of savings.

(c) The regional languages should be used to a larger extent than at present in the rules, forms, notices, etc., used by the savings banks at the sub-office and branch office level.

(d) Systematic propaganda through various media popularising the use of post office savings banks and other savings schemes among rural people should be carried out.

(e) The enforcement of certain rules, such as those concerning withdrawals and payments to heirs and dependants on the death of depositors, appears, at present, to be unduly rigid, and causes a certain amount of difficulty to the public. It may be examined whether the procedure could not be made more elastic. For instance, it has been suggested that if the system of opening joint accounts and of permitting a depositor to nominate a successor, in the event of death, is adopted, considerable convenience would result to the people having dealings with post office savings banks.

We recommend that, in order to investigate in detail the present position, procedure and functioning of post office savings banks, and to suggest measures for improvement on the above lines, an officer with considerable banking experience should be appointed to examine the whole question in detail and make recommendations.

51. Other proposals which are not accepted.—We have been able to consider and make definite recommendations with regard to certain proposals for assisting the extension of banking facilities to rural areas in this Chapter. Many more suggestions have been put forward in the replies to our questionnaire all of which cannot be considered here, but we would like to refer to some of the important ones which we have not recommended, and the reasons why we are unable to accept them.

One suggestion, made in a number of replies, is that certain scheduled banks should be selected for each region, on criteria variously suggested by different persons and interests, asked to choose a certain number of rural centres where they would establish branches or pay offices, and given, in addition to facilities of a general nature suggested by us above, special facilities in the form of (a) suitable accommodation in pucca buildings near police stations,

either free of rent, or at a nominal rent, (b) free armed guards, (c) interest-free deposits, and/or grants, to make up for losses in the initial years of their establishment and (d) prompt assistance from the Reserve Bank in case of need. It has also been suggested that such banks should be entrusted with cash work at Government treasuries or sub-treasuries. The reasons we have mentioned in paragraph 44 for the rejection of the proposals for subsidies and interest-free deposits, apply to this suggestion also. Apart from the proposal that the Imperial Bank, as the sole agent of the Reserve Bank, should be asked to expand its branches on a planned basis to a certain number of taluka towns to carry on Government cash work at treasuries and sub-treasuries and to afford remittance and other facilities to banks and the public, we do not approve of any schemes whereby specific plans for the allocation of certain regions or places for selected scheduled banks are to be adopted with the approval and assistance of Government. Activity directly planned, assisted or approved by Government, should, we believe, continue to be confined to public or semi-public institutions, such as the co-operative banks and post office savings banks. The expansion of sound commercial banks should be welcome to the extent it can be stimulated by the general measures we have proposed, but not on any other basis, and we do not approve of direct Government assistance or guarantees to such institutions. We do not also approve of Government cash work at treasuries and sub-treasuries being entrusted to any bank other than the Imperial Bank in the provinces as will be seen from our discussion of the question in Part III of this Report.

For practically the same reasons, we are unable to accept a scheme put forward by the Bengal National Chamber of Commerce, the main features of which are as follows :

(a) Rural Banks at the rate of one for each taluka, with pay-offices within the sub-division, should be established as joint-stock banks, with a paid-up capital of Rs. 1 lakh for the principal office and Rs. 10,000 for each pay office. The scheme should be gradually extended to the whole rural area of the country in 5 years.

(b) Such banks should be sponsored by scheduled banks of 5 years standing and working at a profit, on whom it would generally be obligatory to join the scheme, opportunity being given to them to select their area of operation as far as practicable.

(c) The " sponsor bank " should subscribe 50 per cent. of the capital of each rural bank, the balance being subscribed by the public, failing which it is to be taken up by the Provincial Government.

(d) Government should guarantee the " sponsor bank " against any capital loss up to 50 per cent. for the first 7 years, or contribute Rs. 6,000 per annum towards the cost of working of each rural bank.

(e) The " sponsor bank " should lend to the rural bank for investment, up to 3 times the amount invested by the " sponsor bank " in the rural bank's capital, this amount being guaranteed by Government. The Reserve Bank or a State-sponsored bank may make further advances to the rural bank up to the amount advanced by the " sponsor bank ".

(f) The " sponsor bank " should be paid by the Central Government a commission of 1/8 per cent. on the annual average of outstanding deposits of the rural bank up to the 5th year of its incorporation. The Central Government should seek reimbursement from the profits of the rural bank from the 6th year onwards.

(g) The income of rural banks should be subject to income-tax at a privileged rate not exceeding 25 per cent. of the rate applicable to other public companies.

(h) Deposit insurance scheme should be introduced for these banks.

(i) The rural banks should be entrusted with the cash work of Government as agents of a State-sponsored bank which would itself be the agent of the Reserve Bank.

It will be noticed that the scheme which is drawn up on an ambitious scale will raise several issues of a complicated nature including the allocation of various regions to different scheduled banks and the determination of the conflicting claims of scheduled, non-scheduled and co-operative banks. It will also involve guarantees and subsidies, to a substantial extent, to the "sponsor bank" and concessions in respect of income-tax. For reasons which we have already mentioned in this paragraph and elsewhere, we are unable to support this scheme.

The proposal that a system of "deposit insurance" should be developed for all banks in India has been made by several people. Although the proposal may be commendable in principle, we feel it is not opportune or practicable at the present stage. The risks and uncertainties to which banking in this country is subject at present are far too many and their nature is not yet fully understood. We are in the stage of transition from exceptional, war-time conditions, during which the banking system expanded considerably, to a more normal state of affairs, and the changes which such a transition is likely to bring about are far from clear. Moreover, a fairly well-established and sound system of banking is essential before a scheme of insurance against what may be described as calculable risks can be put forward. As suggested in paragraph 45, the question of introducing deposit insurance in this country should be deferred until the process of consolidation of the banking system as envisaged by the Banking Companies Act has taken place when conditions will be more propitious for the setting up of a practicable and satisfactory scheme of deposit insurance.

52. We may finally say a few words about "mobile banks" on which we invited the views of the public through our questionnaire. There are a few who believe that, in view of the vast size of the country and the impossibility of bringing within the reach of every villager an office of a bank, the system of mobile banks should prove useful and should be introduced in this country. A detailed scheme for a mobile bank, equipped with a specially designed bullet-proof motor van, which would visit selected villages on pre-determined days during the week and transact all banking business, has been worked out by the Bank of Patiala, which proposes to implement the scheme shortly. Others have suggested schemes for mobile banks on a limited basis, according to which a bank, or its branch, could transact business in the villages situated within a small radius round it. The general consensus of opinion, however, is that under present conditions, mobile banks are not likely to be successful in this country. The main reasons for this are :—

(a) The rural people are not likely to repose confidence in banks which are not physically and constantly situated in their midst. The impression they would get is that their funds would be taken away from them and would not be made available to them, as and when required. "In fact", as the Bombay Co-operative Banks' Association and the Bombay Provincial Co-operative Bank Ltd., point out in their memorandum, "the very mobility of a mobile bank may prove its undoing".

(b) Owing to the unsatisfactory state of communications, insecurity and the costliness of the equipment and other arrangements necessary, the experiment will prove too risky and costly under present conditions. These considerations are, in our view, very important and we do not, therefore, recommend the introduction of mobile banks on any considerable scale under the present conditions. Although mobile banks are used in Scotland on some scale to provide banking facilities to the rural areas, elsewhere in the United Kingdom their use is limited. We understand that they are used more as a means of advertisement and of providing additional service to the people at the time of exhibitions, fairs, etc., rather than as a normal method of collecting rural savings.



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PART III
ARRANGEMENT
PROVINCES

CHAPTER I

TREASURIES AND THE EXTENSION OF BANKING FACILITIES

53. We have so far dealt with the general question of the extension of banking facilities to the rural areas, and the lines on which such extension should be promoted. In this part, we shall consider how the arrangements for the management of cash work at treasuries and sub-treasuries can be improved to promote and further the extension of banking facilities in the country.

54. *Conversion of non-bank treasuries into bank treasuries.*—Government treasuries are divided into two categories : bank treasuries and non-bank treasuries. Both at the bank as well as the non-bank treasuries the accounts part of the work is attended to by the Government staff, but whereas a bank treasuries all cash work is attended to either by the Reserve Bank, or the Imperial Bank which acts as agent of the Reserve Bank for this purpose, at non-bank treasuries such work is managed by Government staff. According to the information made available to us, there are at present, 1,304 treasuries and sub-treasuries distributed as follows :—

(1) Bank treasuries and sub-treasuries:—		
(i) Cash work managed by the Reserve Bank	4	
(ii) Cash work managed by the Imperial Bank	136	
(iii) Cash work managed by other banks	17*	
(2) Non-bank treasuries and sub-treasuries		1147
TOTAL		1304

At present there is undoubtedly a preponderance of non-bank treasuries, but the general belief that large* balances belonging to Government lie idle at these treasuries is erroneous. Statement XV appended to the Reserve Bank's Report on Currency and Finance for the year 1948-49 shows the undernoted distribution of the balances of the Central and Provincial Governments on the last day of each month during the financial years 1947-48 and 1948-49 :—

*Refers to treasuries and sub-treasuries in Himachal Pradesh and Vindnya Pradesh.

Reserve Bank of India				Last day of the month		Government treasuries			
						Central Government		Provincial Government	
1947-48	1948-49	1947-48	1948-49			1947-48	1948-49	1947-48	1948-49
3,99,65	2,55,54	18,74	14,19	April		48	49	48	49
4,02,30	2,28,96	12,33	24,08	May		—6	35	2,14	1,11
3,91,15	2,17,51	18,00	19,36	June		24	17	1,24	1,38
3,93,88	2,10,14	16,46	16,90	July		27	15	1,76	1,62
3,71,09	2,37,48	13,07	16,62	August 14 }		17	22	1,35	1,56
3,50,04		15,15		„ 31 }		1	22	1,05	1,89
3,65,55	2,27,59	10,21	18,34	September		26	—1	1,32	2,02
3,63,69	2,42,17	17,76	17,25	October		—1	—15	1,49	2,02
3,69,69	2,18,73	18,55	12,65	November		11	10	78	1,49
3,42,50	2,25,55	19,10	15,56	December		5	17	1,07	1,95
2,68,48	2,23,95	17,20	11,69	January		—1	4	1,13	2,00
2,62,86	2,15,65	13,34	13,63	February		—8	9	1,10	2,12
2,74,85	1,84,33	21,10	28,18	March		4	..	1,19	2,18
						—23	—4	1,63	1,32

(NOTE : Figures since Partition relate to the Central and Provincial Governments in the Indian Union only).

These figures make it clear that the bulk of the Government balances are already available to the banking system of the country, and that the cash balances held at treasuries do not generally exceed Rs. 2 crores. It is possible to work the non-bank treasuries with very fine cash balances in view of the facilities available for transfer of funds through the currency chests of the Issue Department of the Reserve Bank of India. A machinery is thus already in operation to secure the maximum economy in the use of Government balances, and the conversion of non-bank treasuries into bank treasuries will not result in bringing large additional Government funds into the banking system. The assumption made in certain quarters that the replacement of non-bank treasuries by bank treasuries will take banks directly into the villages is also based on an obvious misconception, as treasuries are, as a rule, located at the district headquarters and sub-treasuries at taluka (tehsil) headquarters.

55. The benefits that will accrue to the people of rural areas by the conversion of non-bank treasuries into bank treasuries will largely be of an indirect or incidental nature, and will take the following forms :—

(a) Many villagers have to visit treasuries and sub-treasuries to pay some dues or to attend to other transactions. Thus, greater opportunities will be created for the people of the rural areas to come into contact with a bank if the number of bank treasuries is increased.

(b) The branches of banks do not merely deal with the local people but where suitable opportunities exist also extend their operations to the surrounding areas. For example, we are informed that at the end of June 1949 there were 363 places where the Imperial Bank had outstanding advances although it did not have a branch or office at any these centres. A similar practice obtains with other bank, and branches of banks are usually able to cover a fairly wide area through their net-work of pay offices and sub-pay offices, the necessary control and supervision being exercised by branches at the base. The extent and nature of the services the banks offer to the surrounding areas naturally depend on the existence of certain facilities, the scope for business and the resources of the banks. Although we do not have data regarding all banks, we are informed that the finance, particularly the marketing finance which is provided by commercial banks to the people of the rural areas, is quite substantial.

(c) In Chapter II of Part II wherein we have analysed the effect of war-time rise in prices on rural incomes and saving, we have come to the conclusion that the increased incomes have, by and large, accrued to the bigger landlords, merchants and traders, and have stated that under the present conditions these are the people who are likely to take advantage of the facilities available through banking institutions. We have also suggested that the immediate measures for the extension of banking facilities should be conceived largely from the point of view of bringing a large number of such persons within the orbit of the organized banking system. Such persons being more affluent and informed than the rest of the rural population usually have extra-village associations and contacts with the nearby towns. To the extent, therefore, to which the transfer of cash work will enable sound banks to extend their operations to areas not adequately covered by them, a larger sector of the rural people who are likely in the near future to benefit from the extension of banking facilities will have been brought into touch with the banking system.

Thus the benefits that the rural areas can derive from the increase in the number of bank treasuries in the present conditions are limited, but these are nevertheless imported, and justify, in our view, encouragement being offered to banks to take over cash work at treasuries and sub-treasuries where this work is at present being managed by Government themselves.

56. Apart from its effect on the extension of banking facilities to rural areas, on general grounds also, we consider that it will be highly desirable to transfer cash work from treasuries to banks at as many centres as possible. Such a change will help to bring the public into greater contact with banks and thus make them bank-minded. It will encourage the use of cheques and help reduce the handling of cash, as at centres where the cash work is handled by a bank, it is possible for persons having financial dealings with Government to have the accounts settled by book adjustments. The conversion of non-bank treasuries into bank treasuries will also result in some saving to the Provincial Governments by the reduction of staff engaged on cash work at treasuries and sub-treasuries, which could be utilized to enable banks to meet a part of their overheads in maintaining branches at centres where the general banking business is not sufficient to meet fully the cost of operation. In this way the transfer of cash work to banks will, to some extent, assist the retention of some of the marginal branches and even the establishment of new ones. At a time when there has been a number of adverse developments in the banking world, the extension of branches of a bank which combines banking business with government cash work, and thus enjoys the confidence of Government is bound to prove wholesome and help stabilise the situation by placing at the disposal of the public the services of a first-class institution. We, therefore, recommend that steps should be taken to convert non-bank treasuries into bank treasuries at as many centres as possible, that as in other economically advanced countries, India should increasingly use the agency of banks to handle receipts and payments on account of Government, and that the practice of Government treasuries and departments handling large sums of cash should be gradually done away with.

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57. Appendix IV to this Report shows that there are at present 274 centres where the turnover on Government account exceeds Rs. 64 lakhs per annum but where the government cash work is not being managed by the Imperial Bank. At fifty of these centres the Imperial Bank has already got an office. In addition, there are six places where the Imperial Bank is managing the cash work of the treasuries but not that of the sub-treasuries. At these centres there should not be much difficulty for the Imperial Bank to take over the cash work. At the remaining centres, we suggest that the Imperial Bank and the Reserve Bank should jointly investigate the business potentialities and if sufficient general business is available to enable the Imperial Bank to cover from one-third to one-half of its overheads, arrangements should be made with the Imperial Bank to open branches or treasury pay offices and take over the cash work within the next five years. There may also be other places where the treasury turnover may not be large, but the potentialities of general banking business may be sufficient to warrant the opening of an office of the Bank. The feasibility of opening branches or offices at these centres should also be examined in the light of the representations made by the Provincial Governments and business interests.

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58. Under its agreement with the Reserve Bank, the Imperial Bank was paid a turnover commission at the undernoted rates for the quinquennium ended the 31st March 1950 :—

On the 1st 150 crores	1/16 of one per cent.
One the next 150 crores	1/32 of one per cent.
On the next 300 crores	1/64 of one per cent.
Over 600 crores	1/128 of one per cent.

The turnover at the Imperial Bank's existing offices already exceeds Rs. 600 crores, and if, for the purpose of calculating the commission payable to it, the turnover at its new offices is included in the total turnover, it would receive commission at the rate applicable to the last slab, namely. 1/128 of one per cent., on the turnover at its new offices. It is obvious that this rate will offer no incentive to the Imperial Bank to expand further on any considerable scale, and we recommend that, in any case, for the first five years, the rate of commission for turnover at its new branches and treasury pay offices should be fixed separately, taking note of the fact that, as most of the places where the offices will be established will be economically backward, it will be some years before sufficient other income would accrue to the Bank. In fixing the rate, account should also be taken of the savings that would result to the Provincial Governments by the transfer of cash work to the Imperial Bank. Such savings are somewhat difficult to calculate as they depend on the system of working at the treasuries and sub-treasuries and the prevailing rates of pay and allowances admissible to the cash department staff which vary from province to province. From the data supplied to us, however, it would not be unreasonable to assume that these savings would be of the order of Rs. 3,200 per annum for a treasury and Rs. 1,000 for a sub-treasury.

59. It appears from the replies received by us that the Public would generally welcome the transfer of cash work from the treasuries and sub-treasuries to the Imperial Bank, but there is one aspect of the transfer to which we should like to draw attention. It has been pointed out to us that at places where the branches of the Imperial Bank are located at a distance from the treasuries, considerable difficulty is experienced by the public in carrying out their transactions with Government, as they have first to call at the treasuries to have the chalans or bills admitted and then at the Bank to make or receive payments. While considering the question of the transfer of cash work from Government to the Imperial Bank this aspect of the matter should be kept in view, and care should be taken to see that, as far as possible, the treasuries and branches of the Bank doing cash work are situated close to each other. If the recommendation made by us in paragraph 65 regarding the replacement of pay orders by cheques is accepted, this difficulty would be met to some extent, as in that case, it should be possible for the payees to have the amounts credited to their bank accounts without having to call at the banks.

60. *Reform of treasuries and sub-treasuries.*—Assuming that cash work at all the places where turnover on Government accounts exceeds Rs. 64 lakhs will be taken over by the Imperial Bank, there will still be 873 treasuries and sub-treasuries in the provinces alone which will have to be left out for the present and where the existing system will have to be continued for a considerably long time until the economic development of the surrounding areas makes it worthwhile for the Imperial

Bank to establish itself in those areas and take over Government business. Until then, the treasuries and sub-treasuries will not only have to carry on Government business but also provide the facilities which we have recommended to enable banks to continue, and if possible extend their operations in those areas. We find, however, that both official as well as non-official opinion in the country is highly critical of the working of treasuries and sub-treasuries. It would seem that although the volume of work to be handled by them has considerably increased during recent years, sufficient attention has not been paid to ensure that the treasury organization is capable of discharging the duties it has been called upon to undertake. Several treasuries and sub-treasuries are at present not only inadequately staffed but the quality of such staff as is available is also in many cases poor. The result is considerable inconvenience and harassment to the public and delay in the discharge of public business. Since, under our proposals, there will be a further increase in the work of treasuries and sub-treasuries, we consider it of the utmost importance that something should be done to improve their efficiency. This is necessary not only to enable them to perform adequately their primary functions but also to provide certain basic facilities essential for banks to extend their activities to relatively less developed areas which are unlikely to be able to support the branches of banks with all their usual paraphernalia of strongrooms, guards and hierarchy of officials.

61. The attention of the Government of India to the low level of efficiency of treasuries and sub-treasuries was drawn as early as 13th September 1945 by the Reserve Bank who in their letter Cy. No. 2538/46(6)-45 observed as follows :—

“As a link between the Government and the public the Reserve Bank have been feeling the weakness of their treasury agencies; whether in relation to the working of our Issue Departments, the administration of public debt or the Remittance Facilities Scheme it is always treasuries and sub-treasuries which have proved to be the bottle-necks, much avoidable correspondence has to be carried on to get correct returns and advices from them and to make them work to a schedule. In the reports received from our Controlling Officers and the Bank's Inspector considerable emphasis is laid on the difficulties experienced in dealing with such officers, and in fact many useful measures and extensions of the schemes have had to be withheld because treasuries and sub-treasuries were not in a position to undertake more responsibilities. A case in point is that of Bihar, where remittance facilities available to the public had to be discontinued with effect from the 1st August 1942 as the Government of Bihar felt that sub-treasuries in that province could not with safety be entrusted with the additional work and risks which the grant of these facilities entailed”.

62. These observations of the Reserve Bank are supported by several Accountants General with whom we have discussed the subject; in fact, the position, if anything, has further deteriorated since the above communication was sent to the Government of India. It is essential that this deplorable state of affairs which is confined to no single province should be corrected at the earliest possible date, and urgent steps taken to remedy the situation. We understand that the present difficulties arise because the officers in charge of treasuries and sub-treasuries are at present mostly occupied with magisterial and other extraneous duties; they have little or no time to devote to the supervision of treasuries and sub-treasuries, which is often no more than nominal, the actual work

being left to Junior officials with inadequate experience and qualifications. Further, there is a tendency to treat the treasury work as un-important, and staff which is considered unsuitable for other work is drafted to man the treasuries. The Administrative Enquiry Committee and the Commissioners of the Bombay Government who examined the question of treasury reform attributed the present unsatisfactory state of affairs to the fact that treasuries have for a long time been treated as the "Cinderella of the Revenue Department" and "as a dumping-ground for all mischievous, undesirable and inefficient junior hands. Senior hands amongst the treasury staff are such as have failed either in the qualifying test or the Accountant's examination or both and as such are good for nothing anywhere else except in the Accounts Office. They have no prospects of any promotion and no impetus to put in the full amount of work". This being the position only a drastic treatment will bring about a material improvement in the present conditions and we agree with the Reserve Bank that the following measures are essential to bring the working of treasuries and sub-treasuries to the required level of efficiency :—

- (a) The treasury and sub-treasury officers should be completely divested of their magisterial and other duties, not connected with the work of treasuries and sub-treasuries;
- (b) there should be a complete separation of the treasury (or accounts) cadre from the general cadre for the purposes of recruitment and promotion from top to bottom; and
- (c) systematic arrangements should be made for the training of the staff at the offices of the Reserve Bank and the Accountant General, such training, however, being largely confined to the senior and selected treasury staff.

These reforms are not only essential but also feasible as is shown by the observations of the panel of officers appointed by the Government of Bombay to examine the question in detail. According to these officers, the creation of a separate cadre of treasury and sub-treasury officers and the separation of the treasury establishment from the revenue establishment are not only desirable but are also practicable; the cost of carrying out the relative reforms would not be prohibitive, and such cost as it would involve would be adequately recompensed by the resultant increase in efficiency. We trust that the Government of Bombay will take early steps to implement the recommendations of the panel and other provinces will likewise take similar action in relation to the treasuries under their control as early as possible.

63. As stated earlier, the reorganisation of treasuries and sub-treasuries on the proposed lines has been suggested with the dual object of improving their efficiency in the discharge of their normal duties, and enabling them to provide certain facilities to banks and the public proposed by us in Part II of this Report. We are given to understand, however, that some of the Provincial Governments has in the past been unwilling to impose additional responsibilities on treasuries and sub-treasuries connected with the remittance of funds on the ground that whereas such extension would entail additional cost and responsibilities to them, any income from the provision of these facilities would be passed on to the Reserve Bank. It would appear that the Reserve Bank differentiates between the Imperial Bank and the Provincial Governments in regard to the commission realised on the issue of remittances, and that while the Imperial Bank is allowed to retain the commission

earned on telegraphic transfers, drafts etc., issued at premium and is also paid turnover commission on drawings by treasuries encashed by its branches, the Provincial Governments are required to do the work without any remuneration. Although remittance facilities are ultimately dependent on the adequate provision of notes and coin in the chests, the cost of which is borne by the Reserve Bank, the relationship between the Reserve Bank and the Imperial Bank on the one hand and between the Reserve Bank and the Provincial Governments on the other in regard to the custody etc. of chests is the same, and both enjoy identical facilities therefrom. We do not, therefore, consider that this differentiation is justified to the extent it exists at present, and suggest that, in future, the Provincial Governments should be allowed to retain the commission realised on remittances issued at premium although they need not be paid any turnover commission on remittances encashed by the treasuries. The facilities proposed by us are designed to assist the development of banking which is a central responsibility, and the demand of some of the Provinces that they should be allowed to retain the commission is, in our opinion, not unreasonable. The Reserve Bank's annual income from remittances issued by treasuries and sub-treasuries has been of the order of Rs. 2.25 lakhs during the past three years, and this income should, in future, be allowed to be retained by the Provincial Governments to enable them to meet a part of the cost of providing the additional facilities proposed by us.

64. Although the commission realised on remittances and the savings that would accrue to the Provincial Governments on the conversion of non-bank treasuries into bank treasuries will compensate them to some extent, these will not cover fully the additional cost they will have to incur in carrying out the various reforms. It must however be recognised that the facilities suggested by us are calculated primarily to help improve the economic condition of the people of their areas and they should not, therefore, grudge some increase in expenditure. Moreover, in so far as the reorganization of the treasuries will result in increased efficiency, this will mean quicker disposal of Government business, fewer losses to Government and better service to the public. We, therefore, trust that no avoidable delay will be allowed to occur in implementing the proposals on financial or other considerations.

65. In addition to the various measures already suggested by us, there is one other direction in which the treasuries can assist in the development of banking. At present even at places where there are bank treasuries and sub-treasuries, the general rule is to make payments to parties by means of pay orders on the original bills. This practice is unsatisfactory not only from the point of view of Government in that the original documents are handed over to the claimants, thus allowing scope for forgeries and frauds, but also from the point of view of the payees and the paying bankers, who have to take special measures for the presentation and identification of claims. If the practice of payment by pay orders is replaced by payment by cheques, this will not only result in all round convenience, but will also give a fillip to the growth of the cheque habit and we, therefore, recommend that the system of payment by cheques should be introduced at bank treasuries and sub-treasuries to as large an extent as possible.

CHAPTER II

DESIRABILITY AND FEASIBILITY OF A MULTI-AGENCY SYSTEM

66. Before considering the question of entrusting cash work at Government treasuries and sub-treasuries at place where it is not at present being managed by the Imperial Bank to other banks, it is necessary to point out that the question that has been referred to us is the narrower issue of the management of cash work by more than one bank, and not the wider question of distributing Government balances among several institutions. There is a conflict of views among authorities on central banking on the advisability of the Central Bank holding all Government balances. According to some, as Government operations often involve the receipt and payment of vast sums of money, the concentration of Government balances with the Central Bank tends to derange the money market. This could, it is argued, be avoided if these balances were distributed among several banks, as in that event, the effect of such operations would merely be to modify the distribution of cash as between the banks, and no disturbance of the money market, as a whole, would be involved. On the other hand, there are others who consider it fundamentally necessary that the Central Bank of the country should be the sole depositary of all Government balances. In the U.S.A., in addition to 12 Federal Reserve Banks and their 24 branches there are 13,257 banks (date : 30-6-1948) which hold Government balances*. India on the other hand, like other countries which have followed the British model, has adopted the more orthodox system of maintaining Government balances with the Reserve Bank, and to a small extent, with Government treasuries. Whatever the relative merits and demerits of the two systems, it does not appear necessary for us to go into this wider question. An examination of the relative advantages of the two systems will lead us to a discussion of the technique of monetary management and the relations of the Central Bank with Government, questions which are outside the scope of our enquiry, which is limited to the examination of the arrangements for the conduct of cash work on behalf of Government. In other words, the question that has been posed to us is simply this : Is it desirable or feasible, to increase the number of agents of the Reserve Bank for the purpose of managing the cash work of Government ? And in examining the question of the transfer of cash work to several banks we have to proceed on the assumption that no immediate change in the relations of Government with the Reserve Bank is contemplated : also, it is not open to us to suggest any modification in the scheme of the Reserve Bank Act which requires the Central and the Provincial Governments to entrust the Reserve Bank with all their balances except to the extent it is necessary to hold funds at treasuries and sub-treasuries to carry on their monetary transactions at places where there are no branches or agencies of the Reserve Bank.

*Annual Report of the secretary of the Treasury on the State of the Finances for the Fiscal year ended June 30, 1948 ; page 90.

67. The following table shows the number of places having treasuries and sub-treasuries where the Imperial Bank has no branches or offices but where other banks, commercial and co-operative, are established :

Name of Province	No. of places having		Total
	Treasuries	Sub-treasuries	
Assam	6	9	15
Bihar	5	22	27
Bombay	13	118	131
Madhya Pradesh	8	22	30
Madras	2	84	86
Orissa	2	10	12
Punjab	4	27	31
Uttar Pradesh	18	31	49
West Bengal	6	25	31
Chief Commissioners Provinces	11	38	49
TOTAL	75	386	461

It will be noted that there are, at present, 461 centres where other banks are represented but there are no branches or offices of the Imperial Bank. The distribution of cash work amongst several banks will, therefore, undoubtedly result in reducing the number of non-bank treasuries. Since the smaller commercial banks and co-operative banks claim to run their branches at a relatively low cost, it is also possible that the transfer of cash work, which will bring them some additional income, will enable them to maintain some of their marginal branches, or even to establish new branches. To the extent, therefore, these developments will be facilitated, a change from the existing system in which the Imperial Bank functions as the sole agent of the Reserve Bank ought to be welcomed.

68. There are, however, various difficulties in the way of working any scheme in the present conditions, and in considering whether any change from the present uni-agency system is possible, an account must be taken of the special feature of the treasury system as it has been evolved in India over a long period. One such special feature is that the agency which handles the cash work of Government also maintains the currency chests and small coin depots. With all the development that has taken place in the field of banking during the past 50 years, cash still plays a very important part in the day-to-day transactions in this country, and outside the metropolitan towns the cheque habit has not developed to any considerable extent. Even in the large business centres payments in cash predominate. This necessitates a relatively large handling of notes and coin, and in order that sufficient currency should be available in all parts of the country, it has been found necessary to maintain stocks of currency notes and coin at a large number of centres. These reserve's of notes and coin are kept in what are known as currency chests of the Issue Department of the Reserve Bank of India and the small coin depots of the Government of India which are maintained at the branches of the Imperial Bank and treasuries and sub-treasuries, where satisfactory arrangements exist for their safe custody. On 31st December 1949, ther

were 1,08* currency chests and 110 small coin depots in the country holding the following balances :—

	Rs.
<i>Currency chests</i>	
(1) 143 chests in the custody of the Imperial Bank	290,01,32,009
(2) 943 chests in the custody of treasuries and sub-treasuries	108,38,15,311
(3) Total	<u>398,39,48,280</u>

	Rs.
<i>Small coin depots</i>	
(1) 98 depots in the custody of the Imperial Bank	2,26,50,308
(2) 12 depots at treasuries and sub-treasuries	<u>18,66,545</u>
(3) Total	<u>2,45,16,853</u>

The average per chest in the custody of the Imperial Bank was thus Rs. 2,02,80,650 and at treasuries and sub-treasuries Rs. 11,49,327. The average per small coin depot in the custody of the Imperial Bank was Rs. 2,31,126 and at treasuries and sub-treasuries Rs. 1,55,545.

69. There are several benefits which follow from the existence of chests. By Section 39 of the Reserve Bank of India Act, the Reserve Bank has been placed under an obligation to issue rupee coin in exchange for notes, and notes in exchange for coin. It is also obliged to supply notes of lower denominations for those of higher denominations and vice versa. This obligation to provide exchange is discharged by the Bank through the chests. The chests also enable the Reserve Bank to maintain the purity of note circulation as their existence makes it possible for old and soiled notes to be withdrawn and replaced by good notes. Similarly, the requirements of the public for small change are met through the net-work of small coin depots which are maintained at several treasuries and branches of the Imperial Bank. Without such stores of currency, frequent physical movement of notes and coin will be necessary which will not only be expensive but also highly inconvenient. In an economy where transactions are largely settled by cheques and cash plays a small part, the provision of remittances does not present any difficulty because all adjustments are made by book entries, and the receipts and payments merely affect the distribution of balances within the banking system. In this country, however, a large holding of cash by Government and banks is necessary to finance their day-to-day transactions. Thus the stocks of notes and coin in the currency chests also serve as the basis for remittance facilities, and for the movement of funds between different centres and their effective utilisation. The revenue collected by Government which is in excess of the requirements of the area in which it is collected is transferred to headquarters by deposit into the chests while the requirements of the deficit areas are met by withdrawals from the chests. Similarly, the currency chests provide the residuary cash cover for payments necessitated by the encashment of remittances and also receive

*Includes 15 currency chests in the States in the custody of the Imperial Bank.

any excess cash which finds its way into the treasuries or the banks on the issue of remittances. The currency chests and small coin depots therefore render useful services and cannot be done away with in the present state of the economic and banking development of the country.

If this inference is correct, and it is admitted that the chests and small coin depots are a necessary part of our financial machinery, it will also have to be recognized that at places where the Reserve Bank has no branches, the custody of currency chests and small coin depots could be entrusted only to Government treasuries or the banks which conduct the cash work of Government on behalf of the Reserve Bank.

70. The system of currency chests makes the selection of the Reserve Bank's agents a matter of particular difficulty as the normal safeguards which have been found satisfactory in other countries such as the U. S. A. where a number of banks, are utilised for Government work, could not be considered, adequate in this country. In the U. S. A., Government balances with commercial banks are protected in two ways (a) by taking collateral securities and (b) by the cover available from the Federal Deposit Insurance Corporation upto \$5,000 of the Government's account with each bank. In Canada, where also Government receipts and deposits are handled by the chartered or commercial banks, a provision has been made by law to give first charge to Government by declaring Government a preferred creditor. Apart from the fact that deposit insurance is not available in this country, it will be observed that the sum-total of balances held in chests is so high that adequate cover in the form of Government securities earmarked for this purpose could not possibly be provided by the majority of the banks. The balances held in the small coin depots and chests do not technically form part of the deposit liabilities of the bank, and the result, therefore, of depositing Government securities with the Reserve Bank as cover against the chest balances will be that the assets which are intended to meet the obligations of banks to their depositors will be used for a different purpose. Such appropriation of Government securities would reduce the investment cover available to meet the obligations to the depositors and would not be free from objection. The only real security in the conditions of this country will, therefore, have to be found in the stability and solidity of the institution holding the custody of chests, the soundness of its management and the adequacy of Government and Reserve Bank supervision and control over its affairs. Considering the magnitude of responsibility devolving on a bank handling Government business and the fact that the credit of the nation would be linked up with its solvency only first rate banks of unimpeachable standing can be entrusted with the work. It will also be necessary to ensure that the bank would not only be able to handle the cash work relative to the receipt and payment of Government dues, but also be in a position to assume the custody of chests and depots and be depended upon to discharge adequately the various functions incidental to such custody, namely the provision of exchange and remittance facilities, the maintenance of the purity of circulation, the impounding of forged notes, the cutting of defaced diminished and counterfeit coins, etc.

71. We have stated earlier that under the Reserve Bank Act it is compulsory for the Central Government as well as the Provincial Governments to keep with the Reserve Bank all their funds except those required to be kept with treasuries and sub-treasuries for carrying on their financial

transactions at places where there are no branches or agencies of the Reserve Bank. Accordingly, under the arrangements now obtaining, neither the Central Government nor the Provincial Governments, maintain any balances with the Imperial Bank. All payments on behalf of the Central and Provincial Governments are initially made by the Imperial Bank from its own cash balances and subsequently adjusted through its Central Accounts Office with the Central Accounts Section of the Reserve Bank at Calcutta where the main accounts of the Central Government and the Provincial Governments are maintained. Similarly, all receipts on behalf of the various Governments are initially taken into the cash balance of the Imperial Bank and later on adjusted by the Central Accounts Offices of the two banks at Calcutta. Payments or receipts by the provinces on behalf of the Central Government, or by one province on behalf of another are also adjusted through the Central Accounts Section of the Reserve Bank at Calcutta which acts as a clearing house for all inter-governmental transactions. These arrangements for the reconciliation of accounts between the Reserve Bank and the Imperial Bank are highly organized so that the major part of transactions are brought into account and the necessary adjustments made through the Central Accounts Offices of the two banks on the working day immediately following that on which the transactions occur. Nevertheless, there are occasions when transactions remain unadjusted for several days during which the Imperial Bank remains out of pocket to the extent of some crores. Such a position usually arises during periods when revenue is slow to come in and during the early days of the month when disbursements on account of Governments are heavy, and the Bank is required to carry large amounts in transit. If the liquidity of the Government balances which is available under the present arrangements, is to be kept intact and Government balances are not to be wastefully dispersed, a bank which is appointed as the agent of the Reserve Bank must have cash and other liquid resources of its own to be in a position to assume responsibility for initially providing funds to meet Government disbursements under the existing system.

72. Again, treasury and banking arrangements must be correlated to the prevalent accounting and administrative set-up, and take note of its limitations in respect of staff and other organizational aspects. In the previous paragraph we have described briefly how the Government transactions with the branches of the Imperial Bank are adjusted with the Reserve Bank and finally with the various Governments. Similarly, drawings of the branches of the Imperial Bank and of the Reserve Bank under the Reserve Bank of India Remittance Facilities Scheme on treasuries and sub-treasuries and those of treasuries and sub-treasuries on the branches of the Imperial Bank and of the Reserve Bank are also adjusted at the Central Accounts Office of the Reserve Bank at Calcutta with the Imperial Bank and the various Governments through their respective Accountants-General. This procedure necessarily pre-supposes the existence of close contact between the Reserve Bank and its agents, and an efficient central accounting machinery which will ensure that all transactions will be reported and reconciled immediately through the central clearing office, as any delay either in the despatch of advices, or resulting from wrong classification is likely to entail serious difficulties. Although minor adjustments may be made in the present procedure without much difficulty any fundamental changes could only be considered after elaborate investigation and examination of their implications. So long, however, as the

existing system of accounting and adjustment of transactions continues, only such banks can be considered for appointment as agents of the Reserve Bank as are functioning on branch banking lines and are able to provide an effective liaison if not at the Central Accounts Section of the Reserve Bank at Calcutta, at least at one of its other offices.

73. All this means that great care will have to be taken in the selection of the Reserve Bank's agents, and to qualify for such selection, the institution must not only be financially solvent but also be undoubted financial strength. It must be well managed and run on sound banking principles and have an efficient and trained personnel. It should be particularly seen that the institution has an adequate machinery for audit and inspection of branches and for verification of branch cash balances, and has a well-knit and efficient central accounting system. It must have a net-work of branches in the region in which the cash work is allotted to it and maintain, or should, without undue strain on its resources, be able to maintain a branch at least at one of the places where the Reserve Bank has an office or branch to facilitate the adjustment of accounts with the Reserve Bank and Government. It should have adequate capital and reserves and sufficient liquid resources of its own, and should maintain or be able to maintain with the Reserve Bank substantial cash balances against which adjustments with Government and the Reserve Bank could be made as and when the transactions take place. The strong room space at its disposal should be adequate, and it should not have to depend for this purpose on Government to a large extent. In the case of a commercial bank, it will also have to be seen that the bank is included in the Second Schedule to the Reserve Bank Act, is subject to the provisions of the Banking Companies Act, and is not a private company, and, unless Government hold a controlling interest in the institution, the distribution of its share holding is fairly wide. As in the case of the Imperial Bank it will have to confine itself to business which is free from undue risk. The bank to be appointed as the agent of the Reserve Bank must also be prepared to accept a measure of internal supervision and control by Government and the Reserve Bank in addition to the general control which is exercised by the Reserve Bank in the interest of depositors on all banking companies under the Banking Companies Act. This additional control is necessary, firstly, to ensure the proper maintenance of Government accounts and the security of Government and Reserve Bank balances, and secondly, to ensure that the overall policy of the institution which performs the functions of a banker to Government and holds custody of the nation's stocks of currency, conforms to that of Government. Government should have the power to issue directions to the bank on questions of policy or at any rate, the Government director on the Board should be in a position to insist that decisions on matters having a bearing on Government's policy will not be taken without Government having had an opportunity to consider the matter, and that in all such matters Government's orders will be fully implemented by the bank.

74. If the multi-agency system is to be introduced, it will be necessary to see that, apart from the Imperial Bank, there is not more than one agent for each province; otherwise there will be considerable confusion and difficulties in the settlement of remittance and inter-government transactions. The replies that we have received in response to our questionnaire reflect a considerable confusion of thought even among informed circles. It appears to have been assumed that Government work could be divided

amongst the various institutions without causing any difficulty, and suggestions have been made that, to extend patronage to a large number of institutions, a certain volume of Government work should be given to every qualified bank. Some others who have suggested the distribution of work on a regional basis have assumed that regions could be as small as districts or even subdivisions of a district. For example, the Bombay Provincial Co-operative Bank Ltd., has suggested that the Imperial Bank may be allowed to continue to do Government cash work at district headquarters towns, but in taluka town the work of sub-treasuries should be entrusted to the Bombay Provincial Co-operative Bank and 16 other central financing agencies, *viz.*, the district central co-operative banks and taluka banking unions, the branches of the latter two being recognized as the branches of the Provincial Co-operative Bank for the purpose. Apart from the fact that, under the proposed arrangements, there will be no privity of contract between the Reserve Bank and the central financing agencies and the Bank will have to rely merely on the security of the Provincial Co-operative Bank for the proper conduct of the work entrusted to the central financing agencies, the amount of additional work and the resultant confusion that will arise in clearing the transactions will be enormous. At present, Government and remittance transactions at the branches of the Imperial Bank are settled with the Reserve Bank straight through the Central Accounts Office of the Imperial Bank at Calcutta; but if the cash work is entrusted to several co-operative banks, the adjustments will have to be routed through several intermediate agencies. There will firstly have to be a settlement between the branches of the central financing agencies and their head offices, then between the head offices of the central financing agencies and the provincial co-operative bank, between the provincial co-operative bank and the local office of the Reserve Bank, and lastly between the local office of the Reserve Bank and the Central Accounts Section at Calcutta which will carry out the necessary adjustments in the accounts of the Government concerned. Again, all treasuries and sub-treasuries throughout India will have to be kept posted with the names of the various institutions conducting Government cash work on which the remittances will be drawn, and the possibilities of misdirection of advices and wrong entries are likely to be increased manifold. Even under the present highly organized and centralised system, the reconciliation of discrepancies is no easy task, but under a system of multiplicity of agents this task would be rendered extremely difficult. Unless, therefore, a large measure of mechanization can be introduced into our accounting system and an all-round improvement in the working of our treasury and accounting machinery achieve, it would not, in our opinion, be advisable to employ more than one agent in each province though one bank may manage cash work in more than one province.

75. One of the serious difficulties to be encountered if multi-agency arrangements are introduced would be that the selection of banks for cash work would present a delicate and complicated problem. The banks in this country are of varying standing, resources and standards of working and it will be extremely difficult to decide between the competitive claims of the different institutions, or lay down objective criteria which would be accepted as fair by all interests. The experience of the U.S.A. shows that in the past the selection of depositaries sometimes led to charges of favouritism and political influence against the Treasury, it being asserted that "many of the depositaries were 'pet banks' in that they received

deposits for political reasons owing to pressure on members of Congress by their constituents" *. "The public depositaries were chosen", it is stated, "with an eye to political patronage, and particular banks, some times weak, were selected to enjoy the benefits of public deposits".† The possibility of a similar development taking place in this country should be borne in mind and guarded against. On practical grounds as well as others, it would seem that in this country selection will have to be confined only to a few big banks in which event we apprehend there will be considerable agitation from banks which are left out. Our enquiries have shown that there is considerable opposition to entrusting cash work to more than one bank from the small and medium sized banks and co-operative banks. These banks have expressed the fear that any extension of the agency arrangements, unless the work is distributed amongst all banks will adversely affect their credit.

76. A further point which has to be considered in this connection is the cost of managing the cash work at treasuries and sub-treasuries. The basis of the Imperial Banks remuneration for the conduct of Government cash work is laid down in paragraph 2 of the third schedule to the Reserve Bank Act. In accordance with this provision, for the first 10 years' period ended the 31st March 1945, the Imperial Bank received from the Reserve Bank commission calculated on the total of receipts and disbursements dealt with annually on account of Government as follows :—

On the first 250 crores 1/16 of one per cent.
On the remainder 1/32 of one per cent.

These rates were, however, revised in 1944 in the light of the data of actual cost to the Imperial Bank of managing the work, and during the quinquennium ended the 31st March 1950, the commission payable to the Imperial Bank has been calculated, as stated in paragraph 58, at the following rates :—

On the first 150 crores 1/16 of one per cent.
On the next 150 crores 1/32 of one per cent.
On the next 300 crores over 300 crores. 1/64 of one per cent.
On the remainder of total receipts and disbursements dealt with annually on account of Government by the Imperial Bank on behalf of the Reserve Bank. 1/128 of one per cent.

The following statement shows the cost of the Imperial Bank of managing the Governments work and the commission received by it from the Reserve Bank since 1940 :—

Calendar year	Cost of Imperial Bank of managing Government work	Fiscal year	Turnover commission paid to Imperial Bank on Government transactions	Gain (+) Loss (—) to the Imperial Bank (4)—(2)
1	2	3	4	5
	Rs.		Rs.	Rs.
1940	15,94,312	1940/41	17,99,741	+2,05,428
1941	16,09,447	1941/42	20,80,378	+4,70,931
1942	16,09,377	1942/43	27,19,599	+11,10,222
1943	18,33,259	1943/44	39,45,502	+21,12,243
1944	20,65,271	1944/45	44,28,039	+23,62,768
1945	22,57,647	1945/46	23,52,013	+ 94,366
1946	24,66,689	1946/47	22,99,527	—1,67,162
1947	23,25,247	1947/48	21,68,620	—1,56,627
1948	27,63,991	1948/49	22,03,475	—5,60,516

*David W. Dodwell : Treasuries and Central Banks ; page 136.

†Alfred G. Buchler : Public Finance; page 162.

it will be seen that the effect of the 1944 revision has been to reduce substantially the commission paid to the Imperial Bank. It is doubtful if any saving will result to the Reserve Bank by distributing the cash work among several agents.

77. Another relevant factor which might need consideration in this context is the possibility of a revision in the boundaries of some provinces. Such a development, if it does take place, will, under a multi-agency system based on the existing boundaries, require a re-definition of the regions, necessitating the transfer of cash work from one bank to another, and thereby introduce another complication.

78. As regards the co-operative banks, the entrusting of cash work to them is likely to present certain special difficulties. The only co-operative banks that could be considered for entrusting cash work are the financing banks, *viz.*, the provincial co-operative banks, the central co-operative banks and the co-operative banking unions. Indeed, only a few have suggested that primary co-operative credit institutions, *viz.*, the urban co-operative banks or the rural credit societies should be entrusted with the work. The difficulties likely to be experienced in entrusting cash work even to the co-operative financing banks are numerous as will be seen from the following :—

(i) In the first place, co-operative banks are not governed by the same law all over India as is the case with commercial banks. Although the Co-operative Societies Act of 1912, which is an all-India Act, is still the law governing co-operative societies in many provinces, provinces like Madras, Bombay, West Bengal, Bihar and Orissa have enacted their own co-operative laws to suit local conditions. "Co-operation" continues to be a Provincial subject under the new Constitution so that the law governing co-operatives can be altered by any province at any time without reference to the Central Government. Government cash work which requires unified control all over India, can hardly be entrusted to institutions whose basic law is liable to be varied at the will of the different Provincial Governments.

(ii) The Reserve Bank has now a measure of control over the commercial banks. Under Section 21 of the Banking Companies Act, the Reserve Bank has the power to determine the policy of these banks in relation to advances; under Section 35 it can inspect them, and under Section 36 it can caution or prohibit banks from entering into any particular transaction or class of transactions. But it does not possess any such statutory powers of control over the co-operative banks. It is true that under Section 54 of the Reserve Bank of India Act, the provincial co-operative banks can seek its advice and that under Section 17 of the same Act they can borrow funds from it, yet powers of inspection and control are vested in the Registrars of Co-operative Societies in the provinces. Unless similar powers are assumed by the Reserve Bank in regard to the co-operative banks and restrictions similar to those imposed on the business of the commercial banks are placed on the activities of the co-operative banks, it would not be possible to entrust them with Government cash work on behalf of the Reserve Bank.

(iii) The structure of the co-operative financing banks is federal and not unitary. The provincial co-operative banks, the central banks and the banking unions are independent legal entities, in spite of the fact that the central banks operating over a district and the banking unions operating over a smaller area are all members of the provincial co-operative banks. Thus the

liability to the Reserve Bank for any loss at any one of the financing banks will be limited to the extent of the financial resources of that bank alone. Moreover, branch-banking which is necessary for the efficient discharge of treasury functions has not developed to any great extent except in a few provinces like Bombay and no provincial co-operative bank has a branch outside its own province.

(iv) A more fundamental difficulty is that co-operative banks are intended to "promote the economic interests of their members". If they undertake cash work they will go beyond this object of satisfying the needs of their members. They will not be meeting the needs for loanable funds of their affiliated societies but will be assuming certain obligations to the Reserve Bank on whose behalf they will be doing cash work and the general public from whom they will receive funds or to whom they will make payments. In other words, their dealings will be largely with non-members. This will alter their fundamental co-operative character. No doubt the Provincial Governments have of late permitted co-operatives to distribute controlled articles to non-members as well; but this is only as a temporary measure, and this departure from the principle of co-operation will no doubt be set right as soon as controls disappear. The entrusting of cash work will, however, saddle them with a long-term commitment, and such work cannot, therefore, be entrusted to co-operative banks, unless they are to lose for ever their essential co-operative character, and thereby jeopardize their claim to the various privileges which they now enjoy, such as exemption from income-tax, stamp-duty, registration fees, etc.

(v) The demand for entrusting cash work to co-operative banks arises from the hope that this will make Governments resources available to them, and enhance their prestige in the country. We have indicated elsewhere that it is incorrect to imagine that large balances of Government could be made available to banks doing Government business. It might be conceded that the prestige of doing work on behalf of Government might increase their deposits and thereby enlarge their business, but there is also the danger that such work will absorb so much of their attention that it may lead to a gradual neglect of their primary function of promoting the activities of the affiliated co-operative societies. The field for the extension of agricultural credit is so wide and so little of it has been covered so far, that we hesitate to recommend a new line of business for co-operative banks likely to hamper the only organizations in the country which are at present in a position to reach the mass of the rural population.

79. Apart from the foregoing general considerations, the Bombay Co-operative Banks' Association and the Bombay Provincial Co-operative Bank which have asked for a share of the treasury business on behalf of the co-operative banks have made a qualified request with certain conditions, viz., (i) that the business should be given only at the sub-treasuries; (ii) that district treasuries might continue to clear the inter provincial currency chest and remittance transactions; (iii) that Government should subsidise the uneconomic branches of the provincial and central banks for a period of 15 years; (iv) that Government should bear the entire cost of the guard at taluka sub-treasuries and (v) that Government should provide suitable quarters for the location of sub-treasuries to enable the construction of safe deposit vaults. These conditions can hardly be accepted, and, in our opinion, the transfer of cash work to banks should not entail and subsidies or assistance except an agreed commission, guards, and, to a limited extent, strong room

accommodation where this can conveniently be provided from the accommodation at the disposal of treasuries and sub-treasuries at present.

80. In some other provinces where a claim has been made on behalf of the co-operative banks for a share of the cash work, a distinction has been drawn between the cash work of Government and the maintenance of currency chests and small coin depots, and it has been suggested that only the first should be entrusted to co-operative banks, the rest being dealt with by Government treasuries. The separation of Government cash work from that relating to the maintenance of currency chests and small coin depots on the proposed lines would merely mean the duplication of the machinery, which is considered unnecessary.

81. Several Provincial Governments have also opposed the entrusting of Government cash work to the co-operative banks in view of the weak and undeveloped condition of those banks in their respective areas.

82. Having regard to these various considerations, our conclusion is that a stage has not yet been reached at which a change from the general pattern hitherto in force for the conduct of Government business in the provinces would be in the interest of the country, and we recommend that the cash work at treasuries and sub-treasuries in the provinces at centres where the Reserve Bank is not established should continue to be handled as at present either by the Imperial Bank as agent of the Reserve Bank, or by Government themselves. Our administrative machinery is already working under considerable strain and none too efficiently, and a major change in the system hitherto in force to which the people have become accustomed would not be desirable. Moreover, it would not, in our opinion, be in the interests of the country to do anything which will weaken or impair the organizational and financial strength, of the Imperial Bank towards the building of which much of the nation's efforts and resources have been spent, and in which the country could take some just pride. This Bank has been a stabilising factor through the years of strain and stress, and has, on the whole, provided a healthy tone to the banking structure of the country. There is, undoubtedly, considerable criticism against certain features of the working of this Bank, but such shortcomings are, in our opinion, capable of being remedied by legislative and other measures. We shall have occasion to deal, in the next chapter, with the criticism levelled against the Imperial Bank, and the steps that should be taken to alter such features as are at present considered unsatisfactory. Provided the suggestions in the chapter are accepted, we consider that the balance of advantage lies in allowing the Imperial Bank to retain its monopoly of Government business in the provinces. We also feel that after the changes in the constitution and working of the Bank on the lines suggested by us have been carried out, the present controversies in regard to this Bank will cease and there will be, as the years pass by, a greater appreciation of the services which the institution is capable of rendering to Government and the banking system of the country.

CHAPTER III

FUTURE ROLE OF THE IMPERIAL BANK IN THE BANKING AND TREASURY SET UP.

83 In the preceding two chapters we have reviewed the treasury arrangements from several points of view, and so far as the provinces are concerned, the various considerations have led to the conclusion that the retention of the sole agency of the Imperial Bank, and the extension of its offices to a number of places where it could replace departmental management of treasuries, are the most desirable lines of future policy. Although we do not want to lay down the policy with regard to the States at the present juncture, and generally recommend the continuance of present arrangements for five years more, it appears probable that the Imperial Bank would eventually have to extend its activities to at least some of the states also. It is, therefore, necessary to devote particular attention to the future role of this Bank in the Banking and treasury set-up of the country, and consider the most appropriate means of regulating and utilising its activities in the best interest of the nation.

84. The role that we envisage for the Imperial Bank in the banking and treasury system of the country is primarily that of an auxiliary to the Reserve Bank, and the observations and suggestions that we make in this chapter are conceived on that basis. We desire that the Government and the public should view the future of the treasury arrangements in the country and the Imperial Bank's part in them in the same perspective. We are aware that there has been considerable criticism against the privileges afforded to the Imperial Bank under the present system, and also against the policy of the Imperial Bank towards other banks. Such criticism is partly political, being a carry-over from the past, but it also expresses the genuine apprehensions of the commercial and banking interests in the country towards the working of the institution as organized at present. The change in the political status of the country would lead to the elimination of some of the causes of the complaints that arose in the past but as regards the other complaints from the banking and business community resulting from the policies and practices followed by the Bank, it is necessary that appropriate remedial measures should be devised and put into effect forthwith. We are, therefore, discussing here the several points put before us during the course of our enquiry, and suggesting the lines on which action is called for.

(1) *Private monopoly*.—It has been represented to us, and we agree, that it is wrong in principle and against the long-term interests of the country, that Government cash work and currency chests, with all the prestige and other benefits they carry, should be entrusted to a single commercial bank thereby creating a powerful private monopoly, which can disregard the interests of the public or jeopardize the working of other banks. Either the monopoly should be strictly regulated by the State, or the Bank should be deprived of the cash work and other special privileges it enjoys at present. The present unsatisfactory position arises largely from the fact that some of the powers given to Government by the Imperial Bank of India Act, 1920,

were allowed to lapse in 1934. The Imperial Bank has continued to enjoy most of the benefits it used to get prior to the inauguration of the Reserve Bank and holds custody of currency chests and small coin depots. It was, therefore, unfortunate that some of the important powers vested in Government to regulate its policy and working should have been given up, and we suggest that these should now be re-assumed by Government, and a provision made in the Imperial Bank of India Act that the appointment of the Managing Director and the Deputy Managing Director shall be subject to the approval of the Central Government who will also have the rights to demand the removal from office of any such person who does not continue to enjoy their confidence. Persons in executive charge of the Bank should, however, be chosen with reference to their personal competence for the office they fill, and not on political considerations, and we, therefore, consider it unnecessary that Government should have power to initiate proposals for the appointment of these executives and the power of approval and removal proposed by us should be sufficient. Power should also be re-assumed for the Government officer on the Board of the Bank to ask for the postponement of decisions on questions having a bearing on the national policy of Government and for the review of those already taken on such questions. We further suggest that representation of Government on the Central Board of the Bank should be made more effective and that directors nominated by Government should have seats on the Committee of the Central Board and be entitled to participate and vote at all meetings of the Committee. We do not, however, consider that there should be any interference from Government in its day-to-day working and beyond those proposed above, no further powers should be assumed by Government.

An alternative plan, although we have not considered its implications in detail, would be to reconstruct the Central Board of the Bank on the mode of other commercial banks, place the overall policy and general superintendence of the Bank in the charge of a Chairman, whose appointment would be subject to the approval of the Central Government, and a Board of Directors two of whom would be nominated by Government on the recommendation of the Reserve Bank, and entrust the day-to-day internal working of the Bank to a General Manager who will be an employee of the Bank and will not have a seat on the Central Board. This plan would, of course, mean certain fundamental adjustments in the constitution and working of the Bank and would involve a break from the past, as the Bank will not function as it has done hitherto as an institution constituted by the amalgamation of the three Presidency Banks. We have not gone into this and other details of the scheme which will have to be discussed with the authorities of the Bank and other interests concerned, but we consider that a scheme, on the lines we have indicated would enable the Government to exercise adequate supervision over the general policy of the Bank, while ensuring that its day-to-day working will not be subject to political influences and will be under the charge of an experienced banker.

(2) *Bureaucratic control.*—We have been told that the present organization of the Bank is highly bureaucratic and that because of the powers which the Bank possesses to execute proxies on behalf of shareholders under general powers of attorney, the executive is in a position effectively to control the election of the directors and local board members. In the case of a semi-public institution like the Imperial Bank, the continuance of this power, it is

stated, could only be tolerated if the Bank is under the effective control of Government ; otherwise the effect will in reality be that the executive is neither responsible to the shareholders nor to any other superior authority. We agree that the continuance of this power can no longer be justified, and recommend that the provision in regulation 51 of Schedule II of the Imperial Bank of India Act authorizing the executive to execute proxies on behalf of the shareholders should be deleted. In view of the semi-public character of the institution and its special position, we also recommend that the provisions of clauses (iii) and (iv) of Section 12 of the Banking Companies Act, 1949, should be made applicable to the Imperial Bank, although these provisions do not apply to banking companies incorporated before the 15 January 1937.

(3) *Indianization*.—A strong exception has been taken to the fact that an institution working under a special Act of the Indian Legislature and holding the custody of currency chests and monopoly of Government cash work should have a majority of its senior appointments held by non-Indians. It is pointed out that although a period of nearly 30 years has elapsed since the Bank was constituted, it is only recently that some of these posts have been allowed to be held by Indians. We admit that there is force in this criticism, but this factor does not, in our opinion, justify a change in the present system of the management of Government work. With the changed political status of the country, there should now be a rapid progress in the direction of Indianization, and we understand that active steps are already being taken to Indianize the officer cadre, and an assurance has been given to the Government of India that all senior appointments in the Bank will be Indianized by 1955. This assurance should be regarded as reasonably satisfactory, and it may now be taken for granted that, consistently with the requirements of efficiency, everything will be done to Indianize the officer personnel of the Bank within the shortest possible time.

(4) *Unfair competition with other banks*.—It has been represented to us that being in the privileged position of the custodian of currency chests and sole agent of the Reserve Bank, the Imperial Bank engages in unfair competition with other banking institutions. It is argued that apart from prestige and confidence associated with its privileged position which in themselves are great assets in banking, credit being the foundation of the industry, the bank is placed in a stronger competitive position over other banks inasmuch as it is able to work with extremely fine balances at its branches and also to make substantial savings in the cost of remittances. Further, the Bank is said to discriminate between its own customers and other banks in the matter of remittances. It has, therefore, even been suggested that if the Imperial Bank is to retain its present position of being the sole beneficiary of Government patronage, it should be divested of its commercial activities. We do not entirely agree with this criticism ; in our opinion it is necessary, in the interests of the country, that the Imperial Bank should continue to retain its commercial activities, and we also consider that the existing restrictions on its business are quite sufficient. As regards the facility for free transfer of funds through currency chests, however, we suggest that steps should be taken to see that the Imperial Bank is not the chief beneficiary under the arrangements. Several services have to be performed by the Bank because it holds custody of currency chest balances, and it is no doubt entitled to claim fair compensation for these services, but we do not consider that it can be permitted to make any undue profits or derive a competitive advantage over other banks by reason of the fact that it holds custody of the national stocks of currency. We have already recommended in Part II the cheapening of the rates for remittance of funds for banks through treasuries and branches of the Imperial Bank. This

suggestion, if accepted, should provide some relief to other banks ; but we would also suggest that the cost to the Imperial Bank of managing the chests and the monetary value of the various benefits it derives from their use, should be worked out in detail by the Reserve Bank in consultation with the Imperial Bank, and it may be ascertained whether the facilities for remittance of funds allowed to other banks cannot be further extended.

(5) *Excessive centralization.*—It has been suggested that for the effective economic development of the different parts of the country, it is necessary to encourage local talent through the growth of provincial banks on sound lines. An all-India institution of the type of Imperial Bank with its headquarters in Bombay or Calcutta, however efficient and well managed, is unlikely to meet adequately the requirements of a country of the size of India. The working of such a highly centralised institution tends, it is argued, to be impersonal, and it is, therefore, apprehended that the Imperial Bank is unlikely to interest its in the opening of up the less-developed areas. While the growth of regional banks may have certain advantages, we do not consider that the emergence of provincialism in commercial banking will be a desirable development. There is no reason why an institution of the type of the Imperial Bank with its large resources should not be able to assist the development of less-developed areas to the same extent as any provincial bank. Banking is essentially an evolutionary process, and its development must depend on the economic potential of the various areas ; but so long as there is scope for expansion, and the Imperial Bank is assured that its overheads will be covered, the country has, in our opinion, a right to require the Bank to extend its net-work of branches. Our discussions with the Imperial Bank do not suggest that it is averse to opening new branches on this basis, and we suggest that, as already recommended, the Imperial Bank and the Reserve Bank should jointly investigate the possibilities of increasing the number of branches of the Imperial Bank to cover as many centres as possible. Further, in order to introduce an element of regionalisation, the Bank may be asked to establish one or two additional Local Head Offices so that the various regional interests are more fully represented on its Local and Central Boards.

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PART IV
TREASURY ARRANGEMENTS
IN THE STATES



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CHAPTER I

NECESSITY FOR SEPARATE TREATMENT

85. We now proceed to discuss the treasury arrangements in the states. For the provinces we have suggested the following broad pattern for the management of cash work at treasuries and sub-treasuries :—

- (1) The Reserve Bank to manage cash work at all provincial headquarters ;
- (2) The Imperial Bank to manage cash work at all places where there are no branches of the Reserve Bank but where the Imperial Bank, has, or may hereafter establish its branches ;
- (3) At all other centres, cash work to be managed departmentally by Government.

86. In making proposals for the states we have to keep in view the requirements of federal financial integration. This implies that, as far as possible, there should be uniformity, between the provinces and states, in banking and treasury arrangements, in respect of the Central as well as State transactions. A natural corollary from this would be that all states should be brought within the scheme of the Reserve Bank of India Act, should appoint the Reserve Bank as their banker, and entrust it with all their monies and balances, free of interest, (except that at centres where the Reserve Bank does not have its branches or agencies, the State Governments may hold such balances as may be required at treasuries and sub-treasuries to carry on their financial transactions). The Reserve Bank must also be entrusted with all the remittance, exchange investment and other banking transactions as well as with management of the public debt of the states.

87. Further, the principle of uniformity in banking and treasury arrangements between provinces and states would require that if any bank other than the Reserve Bank is to be entrusted with the handling of cash work in any state, that bank should undertake such work as the agent of the Reserve Bank. It should, therefore, be able to handle currency chests and small coin depots and also the work connected with the issue and payment of remittances under the Reserve Bank of India Scheme of Remittance Facilities, and satisfy the various other conditions laid down by us in Chapter II of Part III. If the banks which are now handling the cash work in the states do not qualify for being entrusted with the above functions, they should be replaced by some other agency qualified to do so.

88. The position at present prevailing in the different states in this respect will be reviewed in some detail later. But broadly speaking, it may be stated that the majority of the banks now handling Government work in the states do not qualify for being appointed as agents of the Reserve Bank. They have inadequate resources and are of insufficient standing. With few exceptions, they were established during the period of war and inflation, and owe their present prosperity largely to the fact that they were sheltered from competition by State protection ; their ability to face adverse economic forces independently of Government protection and support is still to be tested,

and it is yet to be seen how the introduction of a common legal and tax system for the country will affect their position. Excepting the Hyderabad State Bank, none of the other banks has so far been entrusted with currency chests and small coin depots, and their capacity to manage them is doubtful. It is, therefore, obvious that although some of them may, at first sight, appear to be qualified for appointment as agents of the Reserve Bank, the adoption of such a course is not without considerable risk, and cannot be recommended without a detailed and thorough examination of the working of each individual bank.

89. It is, however, necessary to recognize that the principle that only banks which fully satisfy the standards laid down by us could be considered for appointment as agents of the Reserve Bank, and that institutions now handling treasury work in the states but not coming up to such standards should be deprived of that work, is likely to cause difficulty in regard to several states. The banks now managing treasury work in the states were brought into being with State assistance and patronage, and the sudden withdrawal of such support may seriously damage their position, resulting in a short period in the curtailment of banking facilities now available to the Governments and the people of the States. Such sudden withdrawal may also cause financial loss to the State Governments. It would, therefore, be necessary to give sufficient time to these institutions, and also to the State Governments to reorganize and adjust themselves to the new circumstances. It is possible that given an opportunity some of the institutions may be able to demonstrate their capacity to handle currency chests and remittance transactions. In the case of such institutions, it is desirable to allow them some time to prove their worthiness, and not to prejudice their case by giving the Imperial Bank a monopoly of Government business in the states. Another complicating fact is the existence of a number of agreements between the former rulers and some banks. Although the successor governments may not be bound by these agreements, it may not be considered desirable to terminate them all at once.

90. It would also seem that the present organization of the Imperial Bank would not be adequate to assume responsibility for large-scale expansion in the states in addition to the expansion we recommend in the provinces. Even if it is proposed to entrust the Imperial Bank with cash work in the states at places other than those where it is managing it at present, the Bank would not probably be able to establish its offices except only at some of the larger towns in the near future.

91. These considerations, in our opinion, suggest that it would not be advisable to take a final and irrevocable decision on this question at the present stage, but that arrangements should be made to carry on cash work for a period of five years, largely with the machinery that is now being used; also where consistently with the scheme of financial integration and the new set-up this is possible, the existing agreements, with the various banks should be allowed to run their course. By that time, the scheme of federal financial integration will have made substantial progress, and conditions are likely to become more stabilized. Moreover, by then, fuller and more accurate information about the working of these banks could be collected by the Reserve Bank through its machinery of inspection. We, therefore, recommend that at the end of five years from the 1st April 1950, the whole question of the management of cash work at treasuries and sub-treasuries in the states, and the feasibility or otherwise of entrusting that work to the banks now handling it, or to any other agency or agencies, should be re-examined by another committee.

92. In the meantime, only such adjustments and other changes should be effected as are incidental to federal financial integration and the appointment of the Reserve Bank as banker to all State Governments, or as may be necessary in the light of the other considerations dealt with in the following chapter containing our recommendations regarding each State. The services of the institutions now handling Government work may continue to be utilised for the time being, and to the extent it is not possible to do so, Government should make arrangements to manage the work departmentally. We should, however, like to make it clear that where we recommend the use of the agency of the existing banks for conduct of cash work, it is on the assumption that the banks concerned will continue to function on the existing basis : if any material change takes place in the constitution of any such bank, or if any such bank is amalgamated with another institution during the period it is undertaking Government work, a new situation will have arisen and the extent and conditions subject to which the bank as re-organized or the bank with which it is amalgamated, will be allowed to handle cash work will have to be considered afresh in consultation with the Reserve Bank in the light of all relevant factors.

CHAPTER II

PROPOSALS REGARDING INDIVIDUAL STATES

Hyderabad

93. *Present treasury arrangements.*—There are, in Hyderabad, 17 treasuries and 95 sub-treasuries making a total of 112. The number of treasuries and sub-treasuries where the cash work is managed by the Hyderabad State Bank is 16 and 14 respectively. The Imperial Bank of India has only 4 offices in the State, at Hyderabad, Secunderabad, Nanded and Parbhani, and it is doing cash work of the Central Government only at Hyderabad and Secunderabad where it has also the custody of the currency chests of the Reserve Bank. The cash work at all bank treasuries of the State, including those at Hyderabad and Secunderabad, is being managed by the Hyderabad State Bank which was constituted under the Hyderabad State Bank Act, 1350 Fasli (corresponding to 1940 A.D.). The Bank has also been entrusted with several functions usually performed by a central bank. It acts as the agent of the Hyderabad Government for the management of Hyderabad currency (for this purpose it maintains a separate department), is responsible for maintaining the external value of the Hyderabad rupee, and also acts as banker to the State. It manages its public debt and carries on the Government treasury work at several of its branches.

94. The Hyderabad State Bank Act provides for a far-reaching degree of control over the affairs of the Bank by the Government of Hyderabad. The Government have a controlling interest in the share capital as they own 51 per cent of the shares of the Bank, and the previous sanction of the Government has to be obtained to an increase or reduction of the share capital. The Government have the power to nominate the President of the board of directors and three other directors, one of whom is an official of the Finance Department of the Hyderabad Government. The managing director of the Bank is appointed by Government who are also authorised to supersede the board if they are of the opinion that the Bank has failed to carry out any of the obligations imposed or it by the Hyderabad State Bank Act. All changes in the regulations of the Bank must be approved by Government, and Government have the power to appoint such auditors as they think fit to examine and report upon the accounts of the Bank. The commercial business which the Bank is authorised to undertake is subject to certain limitations which are broadly comparable to those placed on the Imperial Bank by its Act, except that the Hyderabad State Bank is also authorised to perform the functions of the Land Mortgage Bank as provided by the Hyderabad Land Mortgage Bank Act No. II of 1349 Fasli (corresponding to 1939 A.D.) on such terms and conditions as may be agreed upon between the Government and the Bank.

95. For the proper discharge of its functions in respect of exchange, management of currency and public debt and conduct of Government business, the Hyderabad State Bank has entered into an agreement with the Hyderabad State Government which contains the various provisions of the Reserve Bank's agreement with the Government of India and with the

Imperial Bank of India, and further embodies the following special provisions :

(1) By clause 21 of the agreement, the State Government are entitled to call from the Bank such information as the Government may require from time to time.

(2) By clause 22, the Government are empowered to issue instructions to the Bank in respect of any matter which, in their opinion, vitally affects the financial policy of Government and the safety of Government balances with the Bank or the balances in the currency reserves. If the Finance Member or any other representative of the Finance Department, representing Government on the Bank's board of directors, gives notice in writing that any action proposed to be taken or carried out by the Bank is detrimental to the Government such action cannot be taken without the approval of Government in writing, and if the Bank wilfully disregards or fails to comply with the provisions of this clause, the Government are entitled to terminate the agreement with the Bank. This provision is similar to that contained in section 10(2) (a) of the Imperial Bank of India Act prior to its amendment in 1934. In addition, there are certain other provisions in the agreement designed to enable the Bank to discharge its obligations to sell and buy, out of the cash assets of the Currency Department, India rupees at rates fixed from time to time by the State Government.

The Hyderabad State Bank has also made certain standing arrangements with the Imperial Bank in order to carry out the exchange and remittance operations of the state Government outside the Hyderabad State, and to facilitate the investment of its surplus funds.

96. The principal liabilities and assets of the Bank as disclosed by its balance sheet relating to the 30th September 1949, are as follows :—

(In thousands of rupees)			
<i>Principal Liabilities</i>	O.S. Rs.	<i>Principal Assets</i>	O.S. Rs.
Paid-up Capital	75,00	<i>Investments</i>	5,49,76
Reserves	28,75	A. Government securities	20,22
Government Deposits	5,12,75	B. Other securities	5,69,98
Other Deposits	9,35,93	<i>Advances</i>	
Other Liabilities	16,12	A. Fully Secured	3,15,19
		B. Unsecured	1,19,32
		<i>Cash</i>	4,34,51
		A. In hand	3,07,22
		B. Balances with other banks	5,48,01
		Other assets	16,05
TOTAL	15,68,55	TOTAL	15,68,55

The Bank's own resources, as represented by its paid-up capital and reserves, amounted to Rs. 1.04 crores and were 7 per cent. of the total deposits of Rs. 14.49 crores. On the 30th September, 1949, Government deposits with the Bank totalled Rs. 5.13 crores and deposits from the public Rs. 9.36 crores. Cash in hand and balance with other banks amounted to Rs. 5.48 crores, and represented more than 50 per cent. of deposits from the public. Together with investments amounting to Rs. 5.70 crores, the majority of which were in Government securities, they exceeded the deposits from the

public. The proportion of cash in hand, balances with other banks and investments in Government securities to total deposits (including Government deposits) was nearly 76 per cent. Loans and advances were less than 50 per cent. of deposits from the public, and of the total loans, 72 per cent were fully secured.

97. The Bank has 46 offices of which 43 are situated in the Hyderabad State. 30 of these transact treasury business, and 20 have currency chests.

98. *Our recommendations for the future management of Government cash work.*—With federal financial integration, the Hyderabad State Bank cannot continue to perform any of the central banking functions, and the management of note issue and public debt and the conduct of the general banking business of the State Government must pass to the Reserve Bank. This will have a far-reaching effect on the position of the Bank, and having regard to its place in the economy of the State and in accordance with the general principles suggested by us in the previous chapter, we recommended as follows :—

(a) The Hyderabad State Bank should be appointed as the agent of the Reserve Bank in the State for a period of five years, and be permitted to manage cash work at treasuries and sub-treasuries at centres where it was managing the work on the 1st April 1950. Cash work could not, however, be entrusted to it at any centres where it was not managing it on that date. There are two centres in the State, namely Hyderabad and Secunderabad, where the business of the Government of India is at present entrusted to the Imperial Bank which has also the custody of the Reserve Bank's currency chests at those places. With the appointment of the Hyderabad State Bank as the agent of the Reserve Bank for the entire State of Hyderabad, the Government cash work as well as the custody of the chests at those places should be transferred to the Hyderabad State Bank. As soon as possible the Reserve Bank should establish a branch at Hyderabad, and take over the cash work at that place from the Hyderabad State Bank. In order to implement these proposals, an agreement will have to be entered into between the State Bank and the Reserve Bank, the broad pattern of which should be the same as that between the Reserve Bank and the Imperial Bank. The basis on which the remuneration payable to the Hyderabad State Bank for doing Government business on behalf of the Reserve Bank will be calculated should also be the same, and be related to the estimated cost to the Hyderabad State Bank of managing Government work except that the basis of remuneration once fixed shall be subject to review at the end of three years. It is understood that the State Bank is now provided with the services of guards free of charge. This facility should be continued for the period of the agreement with the Reserve Bank. As regards the establishment of the Reserve Bank's currency chests and small coin depots of the Government of India at the branches of the State Bank, these should be maintained only at such places where after actual inspection of the arrangements the Reserve Bank is satisfied that adequate provisions exist for their security and safe custody.

(b) Reference has been made earlier to the balances of the State Government held by the Hyderabad State Bank which under the new set-up will have to be transferred to the Reserve Bank. As their sudden withdrawal will cause undue strain on the resources of the Hyderabad State Bank, we suggest that their transfer may be effected gradually. The actual stages of the transfer should be decided by mutual agreement between the Reserve Bank, and the State Government in consultation with the Hyderabad State Bank

and failing such an agreement, by the Central Government. We also suggest that until the Reserve Bank is able to establish an office at Hyderabad, the management of the existing public debt of the State may be left to the State Bank for the convenience of the holders. The issue and management of all new loans on behalf of the State and all work in connection with the purchase and sale of securities and their safe custody must, however be transferred to the Reserve Bank forthwith.

(c) The branches of the Hyderabad State Bank having custody of the chests of the Reserve Bank should be constituted as agencies of the Reserve Bank under the Reserve Bank of India Remittance Facilities Scheme and be permitted to draw Reserve Bank remittances on branches of the Reserve Bank and the Imperial Bank and treasuries and sub-treasuries having currency chests facilities. Similarly, branches of the Reserve Bank and of the Imperial Bank, and treasuries, and sub-treasuries having custody of the chests of the Reserve Bank should be authorised to draw Reserve Banks remittances on the branches of the Hyderabad State having currency chest facilities.

(d) Until the Reserve Bank is in a position to establish a branch in the Hyderabad State, the chests in the Hyderabad State should be under the jurisdiction of the Bombay Currency Officer. The Hyderabad State Bank already has an account with the Bombay Office of the Reserve Bank, and all adjustments with the Hyderabad State Bank, whether on account of the various Governments or on account of remittances, may be made through this account. It should not be necessary for the Hyderabad State Bank to maintain an account with the Reserve Bank at Calcutta.

(e) As stated in paragraph 94, the Hyderabad State Government at present exercises a degree of control and supervision over the affairs of the Bank. In view of the controlling interest of the State Government in the share capital of the Bank, and of the fact that the arrangements suggested by us are of a temporary nature, we do not propose direct assumption by the Central Government of any of the powers in regard to the State Bank, but suggest that an agreement be reached between the Central Government and the State Government that, during the period for which the State Bank acts as agent of the Reserve Bank, the powers of Government in regard to the appointment of the president and other directors of the State Bank, the power to supersede the board or to place the Bank in liquidation, or to approve its by-laws shall be exercised by the State Government only after the previous approval of the Central Government who shall also be competent to issue directions to the State Government in regard to the exercise of all these powers.

Madhya Bharat

99. *Present treasury arrangements.*—There are, in Madhya Bharat, 16 district treasuries and 66 sub-treasuries. There are in addition 23 sub-treasuries known as tappa treasuries which have been established owing to the long distances of the sub-treasuries from certain parts of the State. They are mainly receiving treasuries, but some of them have been invested with powers of disbursement. All the treasuries and sub-treasuries are managed by Government, and the bulk of the State money is lodged in them. With a view, however, to facilitating the remittance of money to places outside the territorial limits of Madhya Bharat, the realisation of interest on dollar and sterling securities and the negotiation of foreign exchange, it has been found necessary

to open current accounts of varying sizes with a few Indian and foreign banks. According to a statement furnished to us in November 1949, the names of banks, Indian and foreign, with which the Government had opened current accounts and the amounts held in these accounts were as follows :—

		(In thousands of rupees).	
		Rs.	Rs.
Imperial Bank of India:—			
Gwalior		48,71	
Agra		7,15	
Indore		3,59	
Bombay		3,04	
Ratlam		1,82	
Ujjain		1,30	
Delhi		65	
London		37	
			66,63
Bank of Indore, Indore			25,68
National Bank of India, Bombay			1,51
Bank of India, Bombay			19
Krishnaram Baldeo Bank, Gawalior			3
			94,04

To the general statement that the bulk of the State money is held at treasuries, there is, however, an important exception. The commercial concerns of the former Gwalior State are permitted to have monetary dealings directly with banks, without the intervention of treasuries. The amounts at the credit of some of the major commercial concerns in their current accounts with the various banks are shown in the following statement :

		(In thousands of rupees)	
Name of the concern		As on	Amount.
Gwalior Leather Factory		31-10-49	80
A.D. Press		5-11-49	28
Gwalior Potteries		4-11-49	1,29
Stationery Department		7-11-49	64
Electric Supply		5-11-49	43
Gwalior Water Works		4-10-49	39
			3,83

The question of closing these accounts and the lodgement of the balances at the State treasuries is stated to be under the active consideration of the State Government.

Although the Imperial Bank has twelve offices in the State, it is only at Indore that it handles the Central Government business.

100. This State has a number of banks which are either entirely owned by the State or in which the State has a substantial interest. The Government of Madhya Bharat exercise a certain measure of control over these banks, although the degree of this control varies in different cases. The following statement shows the extent of the capital held by the Government in these banks :—

(In thousands of rupees)

Name of Bank	Total paid up capital	Amount of paid-up capital held by Government	Percentage of Government holding to total paid-up capital	Number of offices	Remarks
		Rs.	Rs.		
1. Bank of Indore .	15,30	5,29	35	11	
2. Barwani State Bank	66	66	100	1	Entirely State-owned
3. Dhar State Bank .	50	50	100	1	Entirely State-owned and State-managed.
4. Bank of Dewas (Jr.)	2,39	43	18	2	
5. Bank of Dewas (Sr.)	71	16	22	1	
6. Sitamau Agricultural Bank	66	—		1	The Bank has share capital. It was established in March 1923 with a sum of Rs. 31,812 originally contributed by the agriculturists of Sitamau towards the war Fund (during World War I) but left unutilised. The capital now consists of (i) War Fund (ii) Grain Fund, (iii) Dharmada Fund (iv) Anti-Rabic Treatment Fund and (v) Red Cross and James Ambulance Fund.
7. Byopari Bank Sitamau.	17	..	..	1	The Bank has Share Capital. It was started in 1924 with a sum of Rs. 24,484 appropriated by the State Government from the Famine Fund. It has, however, been repaid and the present capital represents the profit made during the period 1926-49.

101. In July 1948, the Government of Madhya Bharat appointed a Banking Enquiry Committee whose terms of reference included, among other things, the desirability of opening a new State Bank for Madhya Bharat, assigning the functions of such a bank to any existing bank or banks. The

Committee suggested in their report (not published) that the Bank of Indore should be constituted as a State Bank and entrusted with the custody and management of the State funds ; to this end, they proposed an increase in the paid-up capital of the Bank as also in the share of the State-holding of the same. The Committee also envisaged the affiliation of the other State or semi-State banks with the Bank of Indore.

102. *Our recommendations.*—We do not agree with the recommendations of the Madhya Bharat Banking Enquiry Committee, and in view of our general recommendations regarding the management of treasury work in the states, we suggest that the arrangements now in force in Madhya Bharat should be continued for the time being, except at Indore where we propose that the Imperial Bank should undertake State Government business in addition to that of the Central Government which it is managing at present as agent of the Reserve Bank. The State will hereafter be able to avail itself of the services of the Reserve Bank and its agencies for the remittance of funds outside the State and for other purposes, and there is no need for keeping any balances with the Imperial Bank of India, the National Bank of India, the Bank of India and the Krishnaram Baldeo Bank, and these should be transferred to the Reserve Bank forthwith. The transfer of balances from the Bank of Indore may, however, cause some strain on this bank, and we suggest that it should be effected gradually in order to mitigate any possible adverse effect on the bank. The future of other State and semi-State banks should be decided by Government in the light of the advice they may receive from the Reserve Bank.

Mysore

103. *Present treasury arrangements.*—There are 11 district treasuries and 84 sub-treasuries all of which are managed by Government. Except at Bangalore where the cash work of the Central Government, and to a limited extent also of the state Government is handled by the Imperial Bank, the financial transactions of the Government are conducted by the State treasuries. However, to facilitate, the payment of dues to firms and persons in and outside the State and also the realisation of cheques received in satisfaction of dues to Government from the public etc. current deposit accounts have been opened with the Bank of Mysore Ltd., Bangalore, and the Imperial Bank of India, Bangalore and Bombay. These accounts are regulated by separate agreements which are being renewed periodically. The present agreements will be in force up to the end of June 1950, and their main provisions are as follows :—

(a) *Bank of Mysore*—

(1) The Government of Mysore have to maintain a current account with the Bank at Bangalore. The Bank pays interest on the monthly minimum balances at two per cent. below the Bank Rate, but has the option to limit the interest-bearing balance to a maximum of Rs. 5 lakhs, or such higher figure as may be agreed upon between the Comptroller to the Government and the Bank.

(2) The Bank has the custody of securities held by the Government and is entrusted with the work of drawing periodical interest due on the securities. It receives no remuneration for the safe custody of the securities but is paid commission at the rate of 1/8th per cent. on the amount of interest collected by it.

(3) The Bank is authorised to pay interest on the securities of the Government enfaced for payment by the Bank and is paid commission at 1/8th per cent. on the amount of interest paid by it.

(4) The Bank is entitled to free remittance facilities from the treasuries at places where it has branches to the State treasury at Mysore.

(5) The Bank has to obtain the approval of Government for the appointment of the Chairman of the Board of Directors the, Manager and the Deputy Manager.

(6) Government have the power to get the accounts of the Bank audited once a year, or more frequently by a person appoinned by them.

(7) The Bank has to give due consideration to any advice which may be tendered by Government concerning the management of the business and investments of the Bank.

(8) The Comptroller to Government verifies by actual counting twice a year the securities entrusted to the safe custody of the Bank.

(9) The Bank has to keep accounts of interest it pays on the securities of Government in the same way as these are maintained at treasuries and the accounts are subject to inspection by Government.

(10) The Bank is not allowed to engage in, or enter into, operations connected with foreign exchange, and cannot lend money on the security of immovable property except as collateral security.

(b) *Imperial Bank of India—*

(1) The Bank has to allow interest on the minimum monthly balances of the Darbar accounts at Bangalore branch at 1 per cent per annum for the period January to June.

(2) The Government of Mysore have to entrust the Bank with its business in connection with the purchase and sale of securities as far as possible and the Bank makes the following charge on such transactions :—

On purchase and sale of securities	1/16 per cent. on the total cost or sale proceeds.
For effecting delivery of securities only	1/32 per cent. on the amount actually paid or received.

(3) The Bank is required to hold securities in safe custody and collect interest on the following terms :—

Collection of interest	1/8 per cent.
Withdrawal fees	1/16 per cent on face value.

(No fee is charged on deposit of securities)

(4) The Government of Mysore have to entrust the Bank with its business in connection with the transfer of funds to London and *vice versa* as far as possible, and the Bank has at all times to quote rates as fine as those available at other Agencies.

(c) *Messrs. Coutts & Co., Bankers, London—*

Government have a current account with Messrs. Coutts & Co., Bankers, London, for arranging payments to foreign firms and Mysore Government pensioners living in foreign countries. Receipts due to Government in those countries are also arranged to be credited to Government account with Messrs. Coutts & Co., London, Whenever necessary, the balance is replenished by remittances from the Imperial Bank, Bangalore.

104. *Our recommendations.*—With federal financial integration, the management of public debt, issue of all loans, purchase, sale and safe custody of securities, and the management of exchange transactions of the State must be entrusted to the Reserve Bank. Any balance maintained by the State outside India with other bankers must also be transferred to the Reserve Bank. All arrangements which are inconsistent with these requirements must be terminated as soon as possible. There is only one place in the State, namely Bangalore, where the cash work is being managed by the Imperial Bank. At this centre, the work may continue to be handled by that Bank, but this should be done under its general agreement with the Reserve Bank, and not under any special agreement. Neither the Imperial Bank nor any other bank should be entrusted with Government cash work at any other centre in the State until the whole question has been reviewed by the committee whose appointment has been suggested by us in the previous chapter. As soon as possible the Reserve Bank should establish an office at Bangalore, and take over the Government business and the custody of the chest from the Imperial Bank at that centre.

Although from the financial point of view the Bank of Mysore does not appear to derive material benefit from the business of the State Government, it is desirable that the close connection between the State Government and the Bank should not be broken all too suddenly. The only way this connection can be retained is by allowing a certain portion of the Government balances which have hitherto been deposited with that Bank to remain with it for some years, and we, therefore, suggest that the Reserve Bank and the Government of Mysore may make arrangements to this effect in consultation with the Bank of Mysore. Apart from the balances, the only other benefits which the Bank of Mysore has enjoyed and to which special reference is necessary are facilities for free transfer of funds from treasuries and for keeping its balances with them. As soon as the Reserve Bank system is extended to the State, and a net-work of currency chests established at treasuries and sub-treasuries, the Bank of Mysore will automatically be in a position to avail of the remittance facilities under the Reserve Bank's Scheduled Banks Regulations and Remittance Facilities Scheme, and no special provision is, therefore necessary to secure to the Bank of Mysore the continuance of the facilities it enjoys at present for free transfer of funds through treasuries. The Bank may, however, be allowed to continue to keep its funds with the treasuries to the extent these facilities are still required by it.

PEPSU

105. *Present treasury arrangements.*—In this State, there are 8 treasuries and 17 sub-treasuries making a total of 25, all of which are managed by Government. All receipts and payments on Government account are dealt with in the treasuries, but in terms of an agreement dated the 13th September 1935, the Kapurthala State (one of the covenanting states) maintains a current account with the Imperial Bank at Kapurthala into which is paid the entire revenue of that State. The Government of PEPSU also hold balances with certain other banks but there are no special agreements governing these accounts. The balances with the various banks on the 31st December 1949, are given in the following statement :—

(In thousands of rupees)

Name of Bank	Inside the State		Outside the State		Total amount (3 × 5)	
	Place	Amount	Place	Amount	5	6
1	2	3	4	5	5	6
1. Imperial Bank of India	Phagawara Kapurthala Nabha	12,05 11,62 56	Ambala Delhi Bombay Ludhiana Calcutta Abohar (Mukhtsar) 17 mla Moga Ferozepore Mussorie Jullunder	85,94 15,81 6,67 1,38 53 50 39 6 4 4 3		
2. National Bank of India		24,23	London Calcutta Bombay Lahore	1,41 10 1 ..	1,10,39	1,34,62 114
3. Punjab National Bank	Malerkotla	20			1,52	1,52
4. Grindlays Bank			Simla Delhi	1,29 24	1,53	20 1,53
5. Bank of Patiala	Kalsia	21				21
6. Central Co-operative Bank	Nalagarh	24				24
		24,88			1,13,44	1,38,32

106. A reference has already been made to an agreement dated the 13th September 1935 between the Imperial Bank and the former Kapurthala State. The more important provisions of this agreement are given below :—

- (1) The State has to maintain a current account with the Bank at Kapurthala, and the whole of the State revenue is to be paid in to the credit of this account.
- (2) The State treasury business is to be conducted by the Bank.
- (3) The Bank has to transfer State funds to and from any other office of the Bank in (former) British India or Burma at an all-round rate of one anna per cent.
- (4) The State has agreed to waive its right of priority in respect of stocks of produce pledge to the Bank as security for advances.
- (5) The Bank is exempt from the payment of State income-tax.
- (6) The State is not to permit any other Bank to transact business in Kapurthala so long as the Bank maintains its office there.
- (7) The provisions of the agreement were not to operate until rules of law similar in all respects (*mutatis mutandis*) to the rules contained in the undernoted enactments were brought into force as part of the law of Kapurthala State. The Bank is at liberty to close its office and discontinue its business if the laws are altered or repealed.
 - (a) The Indian Bankers' Books Evidence Act (XVIII of 1891).
 - (b) The Indian Companies Act (VII of 1913).
 - (c) The Indian Contract Act (IX of 1872).
 - (d) The Indian Negotiable Instruments Act (XXVI of 1881).
 - (e) The Indian Sale of Goods Act (III of 1930).
- (8) The State has to provide, free of charge, a suitable house, office and strongroom accommodation and electric installation, and to execute all necessary repairs at its own expense.
- (9) The State has to provide free of charge, the necessary armed guard for the protection of the office and strongroom.
- (10) The State has to provide, free of charge, conveyance and armed escort for the conveyance of funds between the office and the Bank's Jullundur branch.
- (11) The Bank is entitled to occupy the house, office and strongroom premises for a period of at least twenty years.
- (12) The Bank is entitled to close its office and discontinue business on three months' notice.

A supplemental agreement was entered into between the Imperial Bank and the former Kapurthala State on the 11th March 1943 in terms of which the Imperial Bank was required to maintain an office at Phagwara. The provisions of this agreement are similar to those of the agreement governing the maintenance of the office at Kapurthala but it contains certain additional provisions regarding revenue collections. The more important of these are as follows :—

- (1) The State undertakes not to permit any other bank to establish an office in the entire Kapurthala State so long as the Bank

is established there. The State agrees not to call upon the Bank to transact business which it would not normally undertake. This agreement does not, however, affect the working of the State Central Cooperative Bank.

- (2) The office of the Bank at Phagwara is to receive State revenue collections at Phagwara through the revenue collecting official of the State at Phagwara once a day in one sum of not less than Rs. 2,000/- for credit of the State accounts at Kapurthala pay office of the Bank at par.
- (3) The Bank is not to make any charge for remitting funds of Kapurthala State from one branch of the bank to another for credit of Kapurthala State accounts. Remittances from the Bank's sub-offices outside the State territory are not to be made at par except from Hoshiarpur treasury pay office as stated in (4) below, and from Bahraich and Lakhimpur pay offices. In lieu of the latter concession the State has agreed to charge a nominal rent of Rs. 10 per mensem for the building leased by the State to the Bank for Bahraich pay office premises.
- (4) The revenue collections made by the State at Bhonga are to be received by Hoshiarpur treasury pay office of the Bank from the revenue officials of the State at Hoshiarpur in the same manner as at Phagwara for credit of the State accounts at Kapurthala pay office of the Bank at par.
- (5) The State has to provide, free of charge, armed escort for the conveyance of funds between the office and the Bank's Jullundur City branch.

There are also two agreements between the Imperial Bank and the Nabha State (one of the covenanted states) dated the 23rd May 1938 and 11th December 1941, the former for maintaining offices at Phul and Jaitu and the latter for maintaining an office at Nabha. The provisions of these agreements generally follow the lines of the agreement with the Kapurthala State, but there is no provision requiring the State to maintain a current account. Small sums of money are, however, maintained in current accounts.

In addition to the pay offices at Kapurthala, Phagwara, Nabha, Phul and Jaitu, the Imperial Bank has a sub-pay office at Ahmedgarh but there is no agreement in respect of this office.

107. *Our recommendations.*—As part of the scheme of federal financial integration the Reserve Bank must be appointed as bankers to the State. This will bring the State within the Reserve Bank's Scheme of Remittance Facilities, and make it possible for the State Government to remit funds between places within and outside the State without much cost. It will also than be possible for the State to use the agency of the Accountants-General to make, or receive, payments on its behalf outside the State. It should, therefore, be unnecessary for the State Government to continue the present practice of dispersing their balances at several centres outside the State, and all these accounts must be closed. The account maintained by the State Government outside India must also be closed, and the Government should adopt the general procedure according to which receipts and payments outside the country on behalf of the provinces are arranged through the Accountant

General, Central revenues, and the Reserve Bank. As regards arrangements for the management of cash work at treasuries and sub-treasuries within the State, we recommend that the Imperial Bank should be entrusted with Government treasury work at Kapurthala, if it is prepared to manage the work under its general agreement with the Reserve Bank, but if it is unwilling to handle the business on these terms, Government should make arrangements for the work to be carried on departmentally. At other centres in the State also, Government must, for the time being, continue to conduct the cash work departmentally. The monopoly of the general banking business and other concessions enjoyed by the Imperial Bank are extraordinary, and cannot be maintained under the new constitutional set-up of the country and should, therefore, be terminated. The balances in the accounts with the Punjab National Bank at Malerkotla, the Bank of Patiala at Kalsia and the Central Co-operative Bank at Nalagarh are small, and the closing of these accounts should not affect these banks. They should, therefore, be closed as soon as possible.

108. While dealing with the Patiala and East Punjab States Union, it is necessary to make a particular mention of the Bank of Patiala, a State-owned and State-controlled bank, in which the State Government have considerable financial interest. This bank was brought into existence in 1917 in accordance with the orders passed by His Highness the Maharaja of Patiala and the day-to-day management of the bank is under a board of directors appointed by the State Government. The board of directors at present consists of five members, the Prime Minister who is the Chairman, the Finance Minister (now Finance Secretary), the Managing Director, who is an *ex-officio* member, and two others nominated by Government from amongst officials and non-officials. The Government have thus full control over the bank. The bank has at present as many as 38 offices in the State and its balance sheet as at the close of business on 30th September 1949 shows the following principal liabilities and assets :—

The Bank of Patiala

(In thousands of rupees)

Principal Liabilities		Principal Assets	
	Rs.	Rs.	Rs.
Capital . . .	15,00	Cash	
Reserves . . .	49,50	(i) In hand	31,10
Deposits . . .	6,04,25	(ii) With State treasuries and bankers.	81
Due to bankers . .	49,19	Investments	
		(i) Government securities . . .	3,08,92
		(ii) Other securities	3,53
		Advances	
		D. Ds. under collection and branch adjustments . . .	61,44
		Other assets	5,59
TOTAL . . .	7,17,94	TOTAL . . .	7,17,94

The claim of this bank for treasury business has been strongly supported by the Government of the State, but as it has so far not been entrusted with the management of treasury business, we cannot, consistently with the general principles we have laid down, recommend the entrusting of the work to this.

bank at this stage. Although there has been during recent years considerable accretion to its strength, the resources of the bank are not, in our opinion, still sufficient to warrant its being entrusted with the custody of currency chests. Moreover, the bank is neither a scheduled bank, nor is it at present subject to the provisions of the Banking Companies Act. The bank's prosperity has been built largely on State patronage and on a virtual monopoly of banking business in the area in which it operated.

Rajasthan

109. *Present treasury arrangements.*—In Rajasthan, there are 24 district treasuries and 187 sub-treasuries, making a total of 211. Of these, 56 are being worked by 7 banks, the rest being non-bank treasuries. The following table shows the banks entrusted with treasury work of the State Government and the number of treasuries managed by them :—

Name of the Bank	Treasuries	Sub-treasuries	Total	Remarks
1	2	3	4	5
1. Imperial Bank of India.	2	..	2	Treasuries at Alwar and Jodhpur.
2. Bank of Bikaner	7 (3 in Bikaner division and 4 in Jodhpur division).	13 (11 in Bikaner division and 2 in Jodhpur division).	20	
3. Bank of Rajasthan.	7 (4 in Udaipur division, 2 in Kotah division and 1 in Jaipur division).	6 (3 in Udaipur division, 2 in Kotah division and 1 in Jaipur division).	13	
4. Kotah State Co-operative Bank.	..	9	9	All in the Kotah division.
5. Bank of Jaipur	4	5	9	All in the Jaipur division.
6. Ram Lakshman Bank.	1	1	2	Both in the Udaipur division.
7. Shahpura State Bank.	..	1	1	In the Udaipur division.
	21	35	56	

110. The treasury work at Alwar and Jodhpur is being carried on by the Imperial Bank in terms of agreements with the covenanting states of Alwar and Jodhpur respectively, while the treasury work at other centres is being carried on by other banks in terms of agreements or arrangements with the Government of the United State of Rajasthan. The provisions of the existing agreements and arrangements with the various banks are as under :—

A. Agreement with the Imperial Bank for doing treasury work at Alwar and Jodhpur.—

(a) *Alwar*—

(i) The Bank is to have a monopoly in the State so long as it continues to have its office in the State.

(ii) The State has to maintain a current account with the Bank and the whole of the State revenue is to be paid in to the credit of the account.

(iii) The State treasury business is to be conducted by the Bank.

(iv) The transfer of State funds to and from any other office of the Bank in (former) British India or Burma is to be effected at an all-round rate of 1 anna per cent.

(v) The State has waived its paramount lien in respect of stocks of produce against which advances are granted by the Bank.

(vi) The Bank is free to acquire property in the State.

(vii) The Bank is entitled to give three months' notice to the State of its intention of closing the office and discontinuing business.

(viii) The Bank is exempt from State income-tax for the first 10 years.

(ix) The State is required to provide a suitable house, office and strong-room accommodation with electric installation at a nominal rental of Rs. 10 per month.

(x) The State is required to provide the necessary police guard for the protection of the office and strongroom, free of charge.

(xi) The Bank is entitled to occupy the premises for a period of at least 15 years from 1940.

(b) *Jodhpur*—

(i) The agreement is liable to be terminated upon a year's notice.

(ii) The Bank is to conduct the treasury business for the Government of Jodhpur on the lines of the treasury business of the Government of India.

(iii) The Government of Jodhpur have to continue the present arrangement regarding the collection of railway revenue, and only the surplus revenue is to be paid in at the Jodhpur branch of the Bank.

(iv) The Government are required to supply, free of charge, bank premises and a bungalow for the agent, police guard and furniture for bank premises.

(v) The Government have also to pay the rent of the telephone instruments in the Bank premises and in the agent's bungalow, and to bear the cost of the electric current consumed in the Bank premises.

(vi) The Bank is to receive a monthly remuneration of Rs. 1,500 from Government.

B. Agreement with the Bank of Rajasthan—

(i) The Bank is the sole agent of the Government for transacting Government's banking business at all places in the United State of Rajasthan where there is a branch of the Bank for the time being, except at places where other banks have been entrusted with this work.

(ii) The Bank has to transact, for and on behalf of the Government the following business, free of charge :—

(a) to receive all taxes, cesses, fees and all other revenues and moneys payable to the Government ;

(b) to make all payments on behalf of the Government, including payments of pensions ;

- (c) to collect cheques, drafts and silver documents payable outside the United State of Rajasthan ;
- (d) to collect interest on Government securities and dividends on stocks and shares, if any ;
- (e) to remit the Government's funds from one place to another within the State, and also outside the State provided the Bank has got agency arrangements ;
- (f) to purchase and sell Government securities for the Government ;
- (g) to supply notes of small denominations and change ;
- (h) to get soiled currency notes exchanged.

(iii) The Bank has to maintain such accounts and submit to the Government such returns as may be required by the Banking Treasury Rules made by the Government from time to time, or as may be directed at any time by the Government.

(iv) The Bank is responsible for the genuineness of all moneys it receives on behalf of the Government.

(v) The Bank is liable to the Government for any fraud, misappropriation, misconduct or negligence of any of its employees in the discharge of its duties as bankers and treasurers to the Government or in the discharge of its any other obligations under this agreement.

(vi) The Bank is required to maintain all its present treasury branches in the United State of Rajasthan and to open and maintain treasury branches in the United State of Rajasthan at places required by Government. If a branch runs at a loss for a continuous period of six months, the Bank may close it with the previous consent of Government. The Bank is not entitled to any compensation if Government find it necessary to close any banking treasury or sub-treasury.

(vii) In consideration of the obligations undertaken by the Bank under the agreement, the Government have to maintain an interest-free balance of Rs. 7 lakhs in their current account, and pay interest at 2 per cent. per annum on the deficiency.

(viii) The Bank is required to pay to the Government interest at 1 per cent. per annum on the balances in excess of Rs. 15 lakhs.

(ix) The Government have to provide escort for remittances within the United State of Rajasthan between the branches of the Bank or other places but the Bank has to pay the travelling expenses.

(x) The agreement is to remain in force for one year from 6th April 1949, and is subject to renewal at the option of Government.

C. Agreements with the Bank of Jaipur and the Bank of Bikaner.—

The agreements with the Bank of Jaipur and the Bank of Bikaner are on the lines of the agreement with the Bank of Rajasthan.

D. Agreement with the Kotah State Co-operative Bank Ltd.—

(i) The agreement came into force on the 13th July 1949 and is valid for a period of one year ; it may, however, be renewed at the option of Government.

(ii) The Bank is to act as Government's treasurers, bankers and sole agents for transacting the Government's banking business at (1) Aklera (2) Anta (3) Bakani (4) Atru (5) Chechut (6) Chhipabani (7) Digod (8) Kanwas (9) Manoharthana (10) Sangod and at such other places as the Government may appoint

from time to time, provided the Bank of Rajasthan has no branches at such places.

(iii) The Bank has to remit the Government funds from one place to another, whether within or without the United State of Rajasthan, at a commission of 1/16 per cent. Where the place is outside the United State of Rajasthan, the Bank has to remit the funds only if it has got agency arrangements at that place for the time being.

(iv) The Bank cannot change its present bye-law whereunder the Government have the right to nominate three persons on the Board of Directors of the Bank, except with the previous sanction of the Government.

The remaining provisions of the agreement with the Kotah State Co-operative Bank Ltd., are similar to those of the agreement with the Bank of Rajasthan, except that there is no provision for the maintenance of any minimum balance with the Kotah State Co-operative Bank.

111. The following statement shows the principal liabilities and assets of the banks (other than the Imperial Bank) at present entrusted with treasury work :—

(In lakhs of rupees)

Name of Bank	No. of offices	Paid-up capital & reserves	Deposits	Cash & balances with banks	Investments in Government Securities	Loans & advances
1	2	3	4	5	6	7
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Bank of Bikaner (1944) (31-3-1949)	38 (24)	55	7.41	2.06	3.14	2.66
2. Bank of Jaipur (1943) (31-12-1948)	48 (24)	60	8.26	2.11	2.34	4.66
3. Bank of Rajasthan. (1943) (31-3-1949)	21 (19)	7	1.31	58	30	51
4. Kotah State Co-operative Bank. (1927) (31-7-1949)	14 (14)	4	47	9	17 (Total investments)	32
5. Ram Lakshman Bank. (1909) (24-7-1949)	4 (4)	2	11	3	..	8
6. Shahpura State Bank. (31-8-1949)	1 (1)	..	8	4	..	4

N.B.—1. In column 1, the year of registration and the date of balance sheet are shown in brackets.

2. In column 2, the number of offices in the State is shown in brackets.

112. *Our recommendations.*—It will be observed from the statement given in the previous paragraph that out of these six banks, the Bank of Bikaner, the Bank of Jaipur and the Bank of Rajasthan are of recent origin, having been constituted during the period of war. The Kotah State Co-operative Bank, the Ram Lakshman Bank and the Shahpura State Bank are comparatively older, but their resources are meagre. In our opinion, none of the banks qualifies for appointment as agent of the Reserve Bank, and we, therefore, recommend that they be allowed to handle treasury work only for the period of the existing agreements with them and thereafter until such time as the State is in a position to establish treasuries, with currency chests, on the lines of those in the provinces. The cash work will be managed by them during this period on the existing basis only at places where they were managing it on the 1st April 1950, and none of the banks should be appointed agent of the Reserve Bank, or be entrusted with the custody of chests. As soon as possible, the State Government should set up their own machinery for the management of cash work at the centres where it is being handled by these banks and transfer the balances with them to the Reserve Bank which will be appointed banker to the State. If at the time of the transfer, it is considered that the sudden withdrawal of the balances from these banks will have adverse effect on their credit, arrangements similar to those suggested for other states may be made in this State also in order to spread the effect of the change on the banks over a period of time.

The Imperial Bank has at present 4 offices in the State, namely, at Sambhar, Jodhpur, Alwar and Jaipur, and at these places it has also the custody of the currency chests. At Sambhar, it is doing cash work of the Government of India only. At Jodhpur and Alwar it is doing the cash work of the State Government but not of the Central Government, and at Jaipur it is doing the business of neither the Central Government nor of the State Government. We recommend that the Imperial Bank be appointed agent of the Reserve Bank at Sambhar, Jodhpur and Alwar and be entrusted with the cash work of the Central as well as the State Government at these centres. It should also be appointed to manage Government business at Jaipur as agent of the Reserve Bank as soon as the agreement with the Bank of Jaipur expires. At Jaipur, however, the Imperial Bank should manage Government business only until such time as the Reserve Bank is in a position to open an office there. The State Government business as well as the Central Government business at all the places mentioned above should be undertaken by the Imperial Bank under its general agreement with the Reserve Bank, and its present agreements with the former Governments of Alwar and Jodhpur should be terminated.

Apart from the four places where the Government cash work will be managed by the Imperial Bank and other places where it will be handled by other banks for a limited period, the State Government should arrange for the work to be carried on departmentally until the whole question has been examined afresh by the committee whose appointment has been suggested earlier.

Saurashtra

113. *Present treasury arrangements.*—In this State, there are 5 district treasuries and 56 sub-treasuries making a total of 61. Of these only 3 are bank treasuries, namely those at Rajkot, Bhavnagar and Palitana, the rest being non-bank treasuries. The Bhavnagar Darbar Bank [designated as the

State Bank of Saurashtra by the Saurashtra State Banks (Amalgamation) Ordinance, 1950 issued on the 19th January 1950] manages the treasury at Bhavnagar while the Palitana Darbar Bank manages the sub-treasury at Palitana. The Imperial Bank, which acts as the main banker of the State, manages the treasury at Rajkot. It also does the Central Government business and maintains the Reserve Bank's chest at Rajkot. The Bank of India was managing cash work at Junagadh and Veraval under arrangements with the Junagadh State, but these arrangements have since been terminated.

114. The arrangements for the management of treasuries and certain other transactions of Government with the various institutions are as follows :—

(1) *Management of treasuries—*

(i) *Imperial Bank of India—*

In terms of an agreement which was in force up to the 31st January 1950, the treasury work at Rajkot was being conducted by the Imperial Bank of India at the following rates :—

Rate	Turnover
1/16 per cent	On the first Rs. 5 crores.
1/32 per cent.	On the second Rs. 5 crores.
1/64 per cent.	On the third Rs. 5 crores ; and
1/128 per cent	On the turnover in excess of Rs. 15 crores.

The agreement has been extended up to the 31st July 1950, and the commission has been fixed at a flat rate of 1/32 per cent. on the total turnover for the period from the 1st February 1950 to the 31st July 1950.

(ii) *Bhavnagar Darbar Bank and Palitana Darbar Bank.—*

These are State-owned banks and no commission is charged by them for doing treasury work.

(2) *Arrangements with the Central Bank of India for the maintenance of accounts and the transfer of funds.—*

(i) *Government accounts.*—Government accounts are being maintained with the branches of the Central Bank of India at Jamnagar, Wadhwan, Jetpur and Porbandar. These accounts are not operated upon by cheques but are maintained simply as receiving accounts in which are credited the cheques, or the excess funds of treasuries. By an automatic arrangement, funds in excess of certain minimum are transferred to the account of the Government with the Imperial Bank, Rajkot.

(ii) *Remittance Facilities.*—There is a standing arrangement with the Central Bank of India for the purpose of remittance of funds, discounting of cheques, etc., on which commission is charged at the rate of 1/32 per cent. for the first crore and 1/64 per cent. for the second crore, subject to readjustment whenever necessary.

(3) *Arrangements for Ways and Means Advances.—*

The Government of the United State of Saurashtra have made ways and means arrangements, which are to remain in force up to the 30th June 1950.

with the Imperial Bank and the Central Bank of India to the extent of Rs. 50 lakhs each on the following terms :—

(i) *Imperial Bank of India*—

- (a) Interest to be paid at 1 per cent. below the Imperial Bank of India advance rate, subject to a minimum of $2\frac{1}{4}$ per cent. per annum.
- (b) Government of India securities of the face value of Rs. 56,15,700 to be deposited with the Imperial Bank duly endorsed in the Bank's favour.

(ii) *Central Bank of India*—

- (a) Interest to be paid at the rate of $2\frac{1}{4}$ per cent. per annum.
- (b) Government of India securities of the face value of Rs. 55 lakhs to be deposited with the Central Bank of India duly endorsed in the Bank's favour to cover the overdraft.
- (c) Two accounts are to be opened for the above purpose, *viz.*, (1) current account with a minimum balance of Rs. 5 lakhs and (2) the actual ways and means advance account. Whenever the balance in account No. (1) falls short of Rs. 5 lakhs the deficit is to be recouped by an automatic ways and means advance from account No. (2) to that extent.

115. A peculiar feature of the treasury and banking arrangements in Saurashtra is the existence of State Banks, State-controlled Banks and banks enjoying monopolies. These banks are listed below :—

State Banks	State-controlled Banks	Banks enjoying monopolies.	
		Name of Bank	Extent of monopoly.
(1) Bhavnagar Darbar Bank	(1) Limbdi Bank	(1) Bank of India	Junagad State.
(2) Palitana Darbar Bank	(2) Dharmol Bank.		
(3) Probandar State Bank	(3) Morvi Mercantile Bank	(2) Morvi Mercantile Bank (State controlled Bank).	Morvi State.
(4) Rajkot State Bank.			
(5) Vadia State Bank.			

Of the State Banks and State-controlled Banks, only the Bhavnagar Darbar Bank and the Palitana Darbar Bank are doing treasury work. The financial interest of the Government in the remaining banks mainly takes the form of balances with the banks or the holding of their shares.

The following table shows the extent of Government's financial interest in, and control over, the banks according to the information supplied to the Committee.

Statements showing the banks in which the State is interested
(Government balances in thousands of Rupees.)

Name of bank	Government balances with the bank	Shares held by Government	Other interest	Nature of control and supervision
(1)	(2)	(3)	(4)	(5)
STATE BANKS—				
1. The Bhavnagar Darbar Bank	77.07 (31-10-49)	The Bank has no capital.	The Bank is housed in a building owned by the State.	Its books are audited annually by the State Auditors. The Bank has been con- verted into the State Bank of Saurashtra with effect from 19-1-50.
2. The Palitana Darbar Bank	1.59 (31-1-50)	Do.	Expenditure on staff & stationery etc. is defray- ed by the State.	The institution is supervised directly by the Finance Department of the State. The rules and regulations of its business are framed by the State. Its books are audited by State Auditors annually. (Information not available).
3. The Porbandar State Bank	5.00 (31-1-50)	Do.	....	Started as a State concern. Control re- garding investments and advances exer- cised by the State.
4. The Rajkot State Bank	15.14 (31-10-49)	Do.	....
5. The Vadia State Bank	.	(Information not available.)		
STATE CONTROLLED BANKS				
6. Limbdi Bank	Nil (31-7-49)	6,421 shares out of 14,936 shares of Rs. 10 each fully paid-up (approximately 43%).	Of the Board of Directors consisting of 12 Directors, the Dowan, the Revenue Com- missioner and the Accountant-General are ex-officio Directors.

(1)	(2)	(3)	(4)	(5)
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STATE CONTROLLED BANKS—*contd.*

Dhrol Banks	. . . Nil (31-12-48)	2,100 shares out of 4,200 shares of Rs 25 each fully paid up (<i>i.e.</i> , 50%)	The Banks is housed in a rent-free building made available to it by the State.	Government have nominated Directors on Board of the Bank.
S. Morvi Mercantile Bank	. . . (30-12-49)	2,500 shares out of 5,000 shares of Rs. 100 each fully paid up (<i>i.e.</i> , 50%).	The Bank was granted a monopoly to function in the State up to 31-3-59. The Bank has agreed to waive the monopoly but final decision regarding the terms etc. has not been arrived at so far.	Three out of the six directors are appointed by the State.

A reference has been made earlier to the issue of an Ordinance by the State Government. This Ordinance, which was issued two months after the constitution of this Committee, not only changed the name and status of the Bhavnagar Darbar Bank, but also empowered the Government to declare from time to time by notification in the local official gazette the Palitana Darbar Bank, the Rajkot State Bank, the Porbandar State Bank and the Vadia State Bank to be the branches of the State Bank of Saurashtra. The principal liabilities and assets of all these banks are given in the following table :—



सत्यमेव जयते

(In thousands of rupees.)

Name of Bank	Liabilities			Assets			
	Capital	Reserves	Deposits	Cash in hand and with banks	Investments in		Advances
					Government securities	Other securities	
1	2	3	4	5	6	7	8
1. The Bhavnagar Darbar Bank (1902) (31-10-1949)	..	77,20	8,43,74 (77,07)	1,15,94	6,89,83	56,79	59,68
2. The Palitana Darbar Bank (1936) (31-1-50)	..	2,57	29,29 (1,59)	3,37	6,76	6,34	11,83
3. The Porbandar State Bank (1925) (31-1-50)	..	3,46	77,30 (5,00)	8,82	64,39	5,35	1,57
4. The Rajkot State Bank (1912) (31-10-49)	45,95 (15,14)	21,87	1,522	1,17	8,97
5. Vadia State Bank	(Information not available)	..	..	..	..	..	..
TOTAL	..	83,23	9,96,28 (98,80)	1,50,00	7,76,20	69,45	81,45

NOTES : (i) Under column 1, the year of establishment and the year date of the balance sheet of banks are shown in brackets.

(ii) Under column 4, State deposits are shown in brackets.

(iii) With the exception of the Bhavnagar Darbar Bank, the banks have no branches. The Bhavnagar Darbar Bank has three offices at Bhavnagar, Botad, and Savar Kundla.

116. *Our recommendations—*

(1) At present the Imperial Bank of India has only 2 offices in the State, at Rajkot and Porbandar. It is doing both the Central and the State Government work at Rajkot but at Porbandar it is doing neither the Central Government business nor the State Government business. We suggest that this Bank may continue to be entrusted with cash work at Rajkot, but this should be under its general agreement with the Reserve Bank and not under a separate agreement with the State Government.

(2) At Bhavnagar and Palitana, the treasury work is being conducted by the Bhavnagar Darbar Bank and the Palitana Darbar Bank respectively. In our view, neither of these banks, either individually or when amalgamated with other State banks, are qualified to be appointed as agents of the Reserve Bank and to hold the custody of currency chests and small coin depots. They should, therefore, be permitted to manage the cash work at Bhavnagar and Palitana on the existing basis only until such time as the State Government are in a position to make their own arrangements for the management of cash work at those centres. As soon as the State Government are able to set up their organization, these banks should be relieved of the work and any Government balances remaining with them should be transferred to the Reserve Bank, subject to such adjustments as may be considered necessary to reduce the effect of the change on the credit and resources of the banks.

(3) At the remaining centres the State Government should arrange for the cash work at treasuries to be managed departmentally.

(4) The arrangements with the Central Bank of India for the receipts of Government balances at its branches at Jamnagar, Wadhwan, Jetpur and Porbandar, and for remittance of funds between its branches will be unnecessary when the currency chest system has been extended to the State, and should be liquidated. Similarly, arrangements with the Central Bank and the Imperial Bank for Ways and Means advances, which are inconsistent with the scheme of federal financial integration and the appointment of the Reserve Bank as banker to the State, should also be gradually wound up. As soon as this can be arranged without causing undue strain on the banks concerned, the balances of the State Government with the Porbandar State Bank, Rajkot State Bank and the Morvi Mercantile Bank should be withdrawn and transferred to the Reserve Bank.

The State Government are already taking steps to terminate the monopolies of the Bank of India and the Morvi Mercantile Bank.

Travancore and Cochin

117. *Present treasury arrangements.*—There are 4 divisional treasuries and 35 sub-treasuries in this State. The Central Government business at Trivandrum is done by the Imperial Bank which is also doing a part of the treasury business of the State Government at that place. The State Divisional Treasury at Ernakulam and the sub-treasury at Trichur are being worked by the Central Bank of India on behalf of the State Government, in terms of an agreement with the former Cochin Government. With these exceptions all the treasuries are run departmentally. Into them are paid practically the whole of the public receipts and from them are disbursed the whole of the public payments of the State. Although receipts and payments are, for the greater part, effected a

treasuries, these are a number of banks which have been entrusted with Government balances, or with which the Government have overdraft arrangements. The following table gives particulars of Government balances and overdraft arrangements with the various banks :—

Name of the Bank	Government balances with banks	Overdraft arrangement
1. Imperial Bank of India, Trivandrum.	Rs. 2.50 lakhs (free of interest).	Limit of Rs. 485 lakhs against Government securities at $2\frac{1}{2}$ per cent per annum.
2. Central Bank of India, Trivandrum and Cochin.	Rs. 2 lakhs (as on 5-11-49). Fixed deposit of Rs. 35 lakhs.	1. Limit of Rs. 124.82 lakhs against Government securities. 2. Key loan arrangement of advance on food-stocks at $2\frac{1}{2}$ per cent. per annum.
3. Travancore Bank, Trivandrum.	Rs. 50 lakhs in fixed deposits for 6 months at 3 per cent. per annum.	
4. Travancore Credit Bank, Trivandrum.	Rs. 17 lakhs in fixed deposits at 3 per cent. per annum.	
5. Central Banking Corporation of Travancore, Alleppey.	The Government have granted to the Bank a cash credit facility up to a limit of Rs. 7 lakhs for 3 years from 1-3-49 at 4 per cent. per annum.	
TOTAL	Rs. 113.50 lakhs	Rs. 609.82 lakhs

The Bank of India is also doing some business on behalf of the Government, but the volume of business is very small, as it relates only to the realisation of interest on certain securities held by them on behalf of Government and to certain payments in Bombay. The Indo-Mercantile Bank was also entrusted with some balances, but we are informed that steps are being taken already to close the current account of the Government.

118. The main provisions of the agreements and arrangements with the various banks which, according to the information supplied by the State Government, are handling Government business, are given below :—

(a) *Imperial Bank of India—*

There are three agreements with this Bank, two for the payment of interest on two State loans, namely $3\frac{1}{2}$ per cent. loan 1956 and 3 per cent. loan 1952-54 and the third for receipt and payment of Government dues, and purchase and sale of Government of India securities. The provisions of these agreements are as follows :—

(1) *Agreement dated the 13th May 1937 for the payment of interest on $3\frac{1}{2}$ per cent. loan 1956.*

(i) The agreement will be in force upto the redemption of the loan but is subject to termination by six months notice on either side.

(ii) The Bank has to pay interest on securities enfaced for payment at Bombay, Calcutta, Delhi, Hyderabad (Dn.), Karachi, Madras and Trivandrum.

(iii) The Bank is entitled to a remuneration of Rs. 50 per annum per lakh of rupees on the face value of the securities with a minimum of Rs. 1,000 per annum.

(2) *Agreement dated the 6th November 1944 for the payment of interest on 3 per cent loan 1952-54—*

The terms of the agreement are similar to those of the agreement referred to in (1) above, except that in addition to the places mentioned therein, the Bank has to pay interest on securities enfaced for payment at Indore, Lahore and Bangalore.

(3) *Agreement dated the 21st June 1920 for receipt and payment of Government dues and for purchase and sale of Government of India securities—*

(i) The Government have to maintain an interest-free balance of Rs. 2-1/2 lakhs, exclusive of any balance in the current account. If the balance in the latter accounts exceeds Rs. 1 lakh, the Bank has to pay interest at 2 per cent. per annum, on the excess.

(ii) Payment to the credit of the account at Trivandrum can be made at Alleppey, Cochin and Madras.

(iii) Cheques payable at the Bank's Branches are to be collected at par.

(iv) Cheques issued on the account at Trivandrum are encashable at all the offices, free of charge.

(v) The Bank, at its Trivandrum branch, has to issue drafts on all its offices, free of charge.

(vi) The Bank has to purchase and sell Government of India securities at a commission of 1/8 of one per cent.

The Bank is entitled to a commission of one-quarter of one per cent. for payments relating to pensions, scholarships and leave allowances payable outside Trivandrum.

(b) *Central Bank of India—*

(i) The agreement is to be in force for a period of five years from the 1st February, 1946 and thereafter for such period as may be mutually agreed upon.

(ii) The Bank has to manage treasuries at Ernakulam and Trichur.

(iii) The Government have to keep a minimum interest-free balance of Rs. 4 lakhs at Ernakulam and Rs. 3½ lakhs at Trichur in current account. On balances in excess of this amount, the rate of interest is 1 per cent. per annum rising by ½ per cent. per annum for every 1 per cent. rise in the Reserve Bank Rate over 3½ per cent., subject to a maximum of 3 per cent. per annum.

(iv) The Government have to maintain a minimum balance of Rs. 15 lakhs in fixed deposit for one year. The rate of interest is ¾ per cent. below Bank Rate, subject to a minimum of 1¼ per cent., and a maximum of 3¼ per cent., the present rate being 2¼ per

cent. For fixed deposits made prior to the agreement, the rate is $2\frac{1}{2}$ per cent.

- (v) For managing treasuries at Ernakulam and Trichur, the Government have to pay the Bank a remuneration of Rs. 1,077 per month besides providing it with buildings, furniture, light and armed guards free of charge.
- (vi) The Bank pays interest on loans issued by the Government at Bombay, Calcutta, Madras, Mattanchery, Ernakulam and Trichur.
- (vii) The Bank has to pay at par at all its branches cheques drawn on the branches at Mattanchery and Ernakulam.
- (viii) The Bank has to collect at par all cheques payable at places where it has branches. In other places, a commission of $1/32$ per cent. is allowed.
- (ix) The Bank's branches at Mattanchery, Ernakulam and Trichur have to issue drafts on its branches at par.
- (x) The Comptroller of Finance and Accounts is always to be given facilities to inspect the books connected with the treasury work.
- (xi) The branch at Mattanchery is to be continued during the period of the agreement.

(c) *Travancore Bank Ltd., Trivandrum—*

There is no formal agreement with this Bank, but it has been entrusted with the following items of Government work :—

- (i) Payment of cheques relating to pensions.
- (ii) Acceptance of Government receipts relating to food transactions, public insurance and accident insurance at all offices and affording credit therefor at Trivandrum at par.

119. *Our recommendations.*—Our recommendations for the future management of the work in the State on the appointment of the Reserve Bank as banker to the State Government are as follows :—

(1) At Trivandrum the Central Government treasury work is at present being managed by the Imperial Bank, and we recommend that at this centre that Bank should also be entrusted with the business of the State under its general agreement with the Reserve Bank.

(2) At Ernakulam and at the sub-treasury at Trichur, the State Government treasury work is at present being handled by the Central Bank under an agreement which expires on the 1st February 1951. This agreement may be allowed to run its course, and the Central Bank may continue to handle the work at those centres on the existing basis until February 1951, but thereafter the Government must make their own arrangements for the management of the work.

(3) At the remaining centres the work is being done by Government departmentally, and we suggest that the State Government should continue to carry on the work through their own staff, as at present.

(4) The agreements with the Imperial Bank dated the 13th May 1937 and 6th November 1944 are for a specific purpose, and may also be allowed to run their course until the relative loans are repaid. As regards the agreement dated the 21st June 1920, the continuation thereof will not be consistent with the new set-up under which the Reserve Bank will be appointed banker

to the State Government ; this agreement should, therefore, be terminated as soon as the necessary arrangements can be made, and the work relating to the purchase and sale of securities should be transferred to the Reserve Bank. With the establishment of currency chests in the State and the extension of the general procedure for the settlement of inter-provincial transactions, the existing arrangements for the remittance of funds on behalf of Government between centres in and outside the State should no longer be necessary, and should be gradually wound up. All other arrangements which are inconsistent with the scheme of financial integration and the appointment of the Reserve Bank as banker to the State should also be liquidated in stage.

Miscellaneous

120. *Other State-owned and State-controlled Banks.*—Apart from the banks dealt with by us in the previous paragraphs regarding individual States, there are a number of other institutions in which the State Governments have interest in some form or other. As far as we are aware, these banks are not handling cash work at treasuries and sub-treasuries in those areas. Our information regarding them is also not complete, and we are, therefore, unable to make definite recommendations regarding them. These banks are of varying sizes, standing and standards of working, and it is not possible to deal with them on a uniform basis. We recommend that the position of each of these banks should be individually examined in consultation with the Reserve Bank, and action taken in the light of their recommendations, and according to the general principles set out by us in this Report.

121. *States not dealt with specifically.*—We have specifically dealt with only 7 States and left out the State of Jammu and Kashmir. We have also not made any specific reference to the former Indian States, such as the Baroda State, which have been merged with the neighbouring provinces or those which have been constituted into Chief Commissioners provinces.

The Matters in which the State of Jammu and Kashmir has acceded to the Union of India do not include banking, and its position has, in many respects, been regarded as special. As regards the former Indian States merged with the neighbouring provinces, or those constituted into Chief Commissioners' provinces with the exception of Vindhya Pradesh all these have ceased to exist as "States" on the date of the constitution of this Committee, while Vindhya Pradesh was constituted into a Chief Commissioner's province from the 1st of January, 1950. These areas are thus not included, amongst the "States" and "Unions" in respect of which we have been asked to make recommendations. In any case, the problems of the areas which have lost their separate entity cannot be separated from those of the provinces in which they have been merged as such a separation would result in several administrative and other complications. A separate treatment of the areas which have been constituted into Chief Commissioners' provinces is also not possible, and subject to a measure of gradualness, and the adjustments necessary to reduce the effect of the impact of the change on the institutions handling treasury work at present, treasury and banking arrangements in these areas must be re-aligned with those of the rest of the provinces.

PART V
FORMATION OF A NEW STATE.
SPONSORED BANK



PART V

FORMATION OF A NEW STATE-SPONSORED BANK

122. The next question that we have to examine is the feasibility of entrusting cash work at treasuries and sub-treasuries where it is not at present being managed by the Imperial Bank of India to a new State-sponsored bank and the extent to which this will facilitate the extension of banking facilities. Before taking up this question, however, a reference may be made to the suggestions made in some of the replies received by us that the Reserve Bank should itself establish a large number of branches and manage Government cash work at treasuries and sub-treasuries, thus relieving the Imperial Bank and other institutions of the work which they have hitherto been doing.

123. Except in countries such as Australia and France, where Central Banks perform commercial banking business and maintain an extensive network of branches, Central banks do not usually have a large number of branches, and this country would be justified in departing from the normal practice only if substantial benefits will accrue by adopting such a course. We do not consider any such benefits would accrue to this country by undertaking a vast expansion of the Reserve Bank, and moreover the difficulties of personnel and organization, and the cost involved, in implementing the proposal will be very considerable. We do not, therefore, favour the acceptance of the proposal, and recommend that the agency of other banks and treasuries should continue to be used for carrying on the cash transactions of Government at centres where the Reserve Bank is not established.

124. We recognize, however, that the organization at the disposal of the Reserve Bank at present is inadequate to meet the requirements of the country, and there is need for some increase in the number of its offices. While there are as many as 1,071 currency chests in the provinces, there are only 35 chests in the states, including 20 chests in Hyderabad maintained by the Hyderabad State Bank, which shows that facilities for the supply and exchange of currency and remittance of funds which are available in the provinces are not available, to the same extent, to the people of the states. The constitutional difficulties which have so long kept the states outside the Reserve Bank system having been removed, it is necessary that early steps should now be taken to increase the number of chests in those areas and thereby extend to the people of the states the facilities which are available to the rest of the country. We find that because of the absence of currency chest facilities some of the State Governments have to carry heavy working balances. For example, in Mysore the sum-total of the balances which the State Government have to keep at their treasuries and sub-treasuries, 95 in number, varies between Rs. 150 lakhs and Rs. 175 lakhs, whereas at 1,147 non-bank treasuries and sub-treasuries in the provinces, the amount that remains outside the banking system is about Rs. 200 lakhs. If the number of chests in the states is increased, it should not be necessary for the State Governments to keep such large sums outside the banking system, and it should be possible for them to work their treasuries and sub-treasuries with much finer balances. If the number of chests is to be increased, it is obvious that for the proper management of the resource operations and control and accounting of the balances in the chests, the Reserve

Bank should have a larger number of offices than at present. Further, if the number of agents of the Reserve Bank for the conduct of Government business is increased at any stage, it will be necessary to decentralise, at least to some extent, the present highly centralised system of adjusting Government and remittance transactions, and to provide facilities to Banks to have their accounts settled at the local offices of the Reserve Bank ; otherwise, the maintenance of one account at the local office of the Reserve Bank for adjustment of currency chest and other transactions and a second account at Calcutta for the settlement of Government and remittance transactions will unduly strain the resources of smaller banks. Earlier we have suggested that as soon as the necessary arrangements can be made, the Reserve Bank should itself undertake Government business at all the provincial and state headquarters. For the implementation of this proposal also, it is necessary that the Reserve Bank should establish additional branches. There is also need, in our opinion, for closer contact and day-to-day liaison between the Reserve Bank and the State and Provincial Governments and between the Reserve Bank and other banks ; this will be rendered possible only if the Reserve Bank has a larger number of offices.

125. Amongst the Central Banks of the principal countries of the world, the number of offices maintained by the Reserve Bank of India is, perhaps the smallest. As against 5 offices of the Reserve Bank of India, the Reserve Bank of South Africa has 8 branches and the Bank of Canada has 10. In the U. S. A., the 12 Federal Reserve Banks with their 24 branches have amongst themselves a net-work of 36 offices. Even in a small country like the United Kingdom, with a highly centralised and developed banking system and efficient communications, the Bank of England has as many as 8 branches, although these branches perform only limited functions, their primary purpose being to service the note-circulation and meet the currency requirements of the areas in which they are located. We have, of course, left out those countries where Central Banks are performing commercial and other services on an extensive scale, and have, therefore, to maintain a considerably larger number of branches.

126. All these factors point to the necessity for increasing the number of the Reserve Bank's offices, and we recommend that energetic steps should be taken to secure the early representation of the Reserve Bank at the headquarters of each of the major provinces and states. In carrying out this expansion, special attention should be paid to the requirements of states where the Reserve Bank does not have any office at present. Such expansion is, in our opinion, necessitated by the large size and growing requirements of the country and the increase in note circulation and public debt since the war, and is also required to smoothen the process of financial integration. It is also desirable on strategic and other grounds.

127. If the recommendations made by us above and in the foregoing parts are accepted we shall have—

(a) the Reserve Bank of India, a State-owned institution, having its offices in all large provinces and states and doing cash work on behalf of Government at the provincial and state headquarters ;

(b) the Imperial Bank of India, a State-controlled institution, having a wide net-work of branches and managing the cash work of Government in the provinces as well as in some states ; and

(c) for the time being, other bank similarly regulated or controlled and managing cash work at Government treasuries and sub-treasuries at various places in the states.

The need for the formation of a new State-sponsored bank must be examined against this background and it will be readily admitted that what will be left of Government business will be so little as to make the setting up of a new organization for the purpose of managing cash work entirely unnecessary.

128. The formation of a new State-sponsored bank has apparently been suggested as a possible remedy for dealing with the situation in the states where several small banks are operating. A reference has already been made to several of these banks which were brought into existence by the rulers and Governments of those areas with varying degrees of State aid and patronage. Although individually small, the sum-total of the resources of these banks is considerable. According to such information as has been furnished to us, it appears that these various State-owned and State-controlled banks have amongst themselves share capital and reserves of Rs. 7·40 crores and deposits of Rs. 70 crores, and they have a net work of 300 branches. The State Governments themselves have considerable financial interest in them, and their total investments in the share capital of these institutions come to Rs. 1·48 crores. As many of the institutions are not sufficiently strong, it is unlikely that, left to their own resources, they will be able to stand the impact of adverse economic forces and competition from the more powerful banks. Some of them may, therefore, be forced into liquidation which will mean a curtailment of the facilities which are at present available and also financial loss to the public and the Governments of the States concerned. If, on the other hand, they are consolidated into one large unit, a powerful institution will have been established in their place which will add to the strength of the banking system of the country, render possible the continuation of a large number of the existing banking offices of these institutions, and also ensure the safety of the capital invested by the various State Governments in them. The new institution will take over the existing banks as going concerns with their staff, and assets and liabilities, and it is therefore contended that the organizational difficulties of setting up the institution will not be very considerable ; nor should there be any difficulty in raising the share capital as the owned funds of the existing institutions themselves exceed Rs. 7 crores. To such an institution having adequate resources and subject to effective Government control and supervision, there should be no objection to entrusting cash work at treasuries, including the custody of currency chests and small coin depots. Being an all-India institution it could easily establish a branch at Calcutta, and adopt the system now in force for the settlement of inter-Government and remittance transactions. While the entrusting of Government cash work to this bank at places where it has branches will afford it a valuable prop, this will also result in the conversion of a large number of non-bank treasuries and sub-treasuries into bank treasuries and sub-treasuries, and thus offer considerable impetus to the development of banking. Another advantage will be that Government will not entirely be dependent for the management of their cash work on a single institution which is the case in the best part of India at present.

129. The proposition, thus viewed, no doubt appears attractive at first sight, but on a careful consideration we feel that the bringing about of the amalgamation of some 25 banks will be no easy matter. The organizational

difficulties arising from the shortage of the right type of personnel and of bringing heterogeneous elements under a unified control will be considerable and there will also be opposition from various interests in the States. The main difficulty will, however, lie in defining the relative spheres of activities of the Imperial Bank, the new State-sponsored bank and other banks. Once the bank is started, it will not be possible to restrict its activities to the states, and it will, therefore, be no easy matter to decide the relative claims of the Imperial Bank and the new bank to establish new offices and take over Government work at these places. If the new bank is not permitted to undertake general banking business, it is doubtful if it will be a viable institution, and in that case its utility will also be considerably reduced. If, on the other hand, like the Imperial Bank, the new bank takes to commercial banking, the competition from these two institutions will, in the aggregate, have serious repercussions on the activities of the remaining commercial banks. Apart from the resentment this will cause among the banks, the overall effect of starting a new State-sponsored bank on the banking situation in the country will not, therefore, be healthy. The replies received by us in response to our questionnaire fully support this conclusion and we find that not only is there no strong demand for the setting up of a new State-sponsored bank, but there is actually a general opposition to the proposal. The Imperial Bank is, to all intents and purposes, functioning as a State-sponsored bank, and has attained its present position due, in no small measure, to the patronage and support it has received from Government in the past. The people can, therefore, legitimately look forward to this institution being developed as a national organisation, and in our opinion the multiplication of institutions which will perform similar functions and compete with one another with the aid of the State will not be a desirable development.

PURSHOTAMDAS THAKURDAS,

-(Chairman)

C. H. BHABHA,

(Vice-chairman)

B. VENKATAPPIAH,

RAM GOPAL,

V. R. SONALKER,

J. C. RYAN,

N. D. NANGIA,

(Member-secretary)

PART VI

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS



SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

PART II

EXTENSION OF BANKING FACILITIES

CHAPTER I

Conclusions & Recommendations Serial No.	Present Position of Banking Facilities	Paragraph No.
1	Banking facilities are available to the public in this country from a variety of institutions, some of which are not 'banks' in the usual sense of the term. They are: treasuries and sub-treasuries: Imperial Bank of India and other commercial banks; indigeneous bankers and institutions; co-operative banks and societies; post office savings banks; and insurance companies and societies.	20
2	The purely banking functions of treasuries are limited, but some of the facilities they provide such as those for exchange of notes and coin and transfer of funds, are valuable aids to the functioning of banks.	20(1)
3	The Imperial Bank has attained a unique status in the world of Indian banking and has been playing an important part in facilitating the development of trade, industry and other economic activities in the country.	20(2)
4	Exchange banks are mainly engaged in foreign exchange business and the financing of foreign trade. Although some of them have, of late, been taking increasing interest in the financing of internal trade at centres where they are established, they have no appreciable contact with the rural areas.	20(3)(a)
5	There has been substantial growth of offices of commercial banks in recent years but much of it is accounted for by bank with comparatively small resources.	20(3)(c)
6	Indigeneous bankers and money-lenders continue to play a significant role in rural credit, but their importance and activities are generally on the decline.	20(4)
7	During the war and after, the provincial co-operative banks have, on the whole, made good progress. Among these the provincial co-operative banks of Madras and Bombay are in a strong position. The	20(5)(a) and (b)

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- position of the central co-operative banks is strong in Bombay and Madras; in Uttar Pradesh their present position may be regarded as generally satisfactory. The structure elsewhere is in a process of reorganization, consolidation and rehabilitation.
- 8 The largest part of the structure providing banking facilities to rural areas consists of rural co-operative societies. Taken as a whole the structure of rural credit societies can be said to be impressive and as a result of charges brought about by the war, improved in certain respects. The improvement is, however, by and large confined to the provinces of Bombay and Madras. In almost all provinces emphasis is now being laid on the organization of multi-purpose societies. 20(6)
- 9 Post office savings banks are the most widespread governmental agency; they enjoy the confidence of the people, and can be developed to collect the savings of the rural people to an increasing extent. 20(7)
- 10 Insurance companies form an important channel for the mobilisation of the people's savings, but they have not as yet been able to approach the rural population or tap their savings. 20(8)
- 11 Although expansion of banking during recent years has been considerable, a part of it, at any rate, particularly in the field of commercial banking represented careless, and even unscrupulous expansion of branches by banks having inadequate financial resources and following unsound methods of working. The extension was also somewhat lopsided, there being heavy concentration in the larger towns and cities, while the smaller and semi-urban towns received less attention. 21, 22
- 12 With a few exceptions, commercial banks have not found it possible to go beyond taluka (orteshsil) headquarters towns and a few mandis or other trading centres further inland; the villages themselves are being served mostly by co-operative credit societies and post office savings-banks. Having regard to the vast area and the needs of the country, much still remains to be done to extend the benefits of modern banking to the people of these areas. 22
- 13 The diversity of banking institutions is inherent in the variety of conditions and circumstances obtaining in different regions of this country, and is the natural consequence of historical circumstances. The differing requirements of people cannot all be provided by one set of institutions and all the various types of institutions have their place in the banking system.

What is necessary is to ensure co-ordination in their activities and the maintenance of a minimum standard of soundness, efficiency and service to the people.

- 14 A certain amount of competition between the various institutions is inevitable, but properly regulated, it should have no adverse effect. 23

CHAPTER II

MOBILISATION OF RURAL SAVINGS

- 15 In considering the extension of banking facilities, the saving capacity of the rural economy, under normal conditions, need not be dismissed as non-existent or negligible. 27
- 16 The question whether there have been any savings in recent times in the rural sector is controversial. But, taking the agricultural sector as a whole, available estimates of national income show that its money income has increased three-fold since 1931-32, and that its share in the total income has also gone up, revealing a relative shift in incomes. Again, a study of comparative price data indicates that after 1942, the relation between agricultural and non-agricultural prices has generally been advantageous to agriculturists, and therefore, their money income, as well as purchasing power in real terms, and consequently saving capacity, can be said to have increased. Costs of cultivation and prices of consumers' goods have also been increasing along with agricultural prices but agricultural costs being largely of a local and predominantly rural character, their increase means only a certain amount of redistribution of incomes within the rural community itself. Expenditure on Essential goods produced outside the rural economy normally forms a small part of the budgets of the rural people, and such expenditure has, for several years, been limited by the non-availability of several types of goods. 28,29
- 17 Co-operative statistics, reduction of indebtedness, and increase in the balances in rural post office savings accounts reinforce the general conclusion that rural incomes have risen, and a margin has been available for savings. 29
- 18 A fairly large proportion of the total agricultural income has gone into the hands of the small minority of big landholders who have also of late benefited from increased participation in money-lending and trade in agricultural produce and livestock. The benefit of debt reduction too has largely accrued to this class while higher direct taxation which has seriously encroached on urban incomes has not 30

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touched them, except to a very small extent. Taking the country as a whole, the major part of rural surpluses and consequently savings, in one form or other, should be found with the bigger land-holders and with some non-agriculturists, such as village money-lenders, traders, owners of mills, etc.

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|----|--|----|
| 19 | It is likely that some of the small land-holders, tenants, and labourers have also been earning higher incomes with some margins for savings, but such savings would be found distributed in small dribblets among large numbers, or might have been absorbed in an improved standard of living, or in certain cases, dissipated in wasteful expenditure. | 30 |
| 20 | There is a consensus of opinion that savings are likely to be substantial in the more fertile tracts and in areas growing commercial crops, while in other regions these are likely to be meagre. | 30 |
| 21 | Increased incomes and savings of the rural people are being largely used to repay debts and make loans to other agriculturists, purchase lands, gold and silver, improve agricultural equipment and effect improvements to land and, to some extent, to raise consumption levels. The general view is that there are no large cash holdings. | 31 |
| 22 | It is not possible to hazard any guess as to the magnitude of current annual savings, or the size of accumulated cash savings available with the rural people. While it would be wrong to assume that large amounts of cash savings are available for collection through the extension of banking facilities to rural areas, it cannot also be categorically held that no possibilities of drawing rural savings into channels of investment useful to the public exist at all. | 32 |
| 23 | The present trend of incomes and savings can be expected to continue only if the relative position of agricultural prices prevailing at present is maintained, but whether this would in fact prevail cannot be foreseen. | 33 |
| 24 | Under existing conditions it would be advisable to concentrate on the consolidation of the progress already achieved, and to plan further expansion on sound and cautious lines, rather than undertake any costly and hasty schemes of expansion of the banking system on the basis of over-optimistic expectations. Such expansion would have to be conceived largely from the point of view of bringing within the framework of the banking system the savings already accumulated and being currently made by the relatively well-to-do rural classes, particularly in the more | |

- prosperous regions. To this end, encouragement should be offered to sound commercial banks to open offices as near the rural areas as possible.
- 25 For the smaller people in rural areas, emphasis will largely have to be placed on the expansion and more effective utilisation of machinery like post office savings banks and co-operative societies. Attempts will also have to be made to promote thrift and small savings by means of propaganda, and group effort utilised to the maximum possible extent. 34
- 26 Apart from inculcating the habit of thrift, necessary at all times to promote self-help and self-reliance, it is essential, in the changed political conditions, that all sections of the community should contribute to the general uplift of the country. Savings available through the banking system will assist rural development to a large extent and the mobilisation of rural savings is, therefore, in the interest of rural people themselves. The internal capital needs for the economic development of the country during the coming years will be very large, and rural savings will have to be fully mobilised to play the due part in such development. 35

CHAPTER III

MACHINERY FOR RURAL CREDIT

- 27 It is generally believed that the adjustment and liquidation of old debts of agriculturists is an essential preliminary to the reorganization of rural credit on a satisfactory basis. However, at present it is neither opportune nor necessary to proceed with such adjustments, and attention should more properly be concentrated on building up the institutional machinery for rural credit. 38
- 28 The establishment of a single financial agency to cover the entire field of rural credit would not be feasible in existing conditions, and in each region, a varied and adequate machinery should be developed in conformity with local conditions 39(ii)
- 29 Such machinery should be able to raise adequate funds by way of share capital and deposits or debentures from the public. The State cannot raise vast amounts of capital, and if the problem of rural credit has to be properly tackled, rural savings must be tapped to obtain the necessary funds. 39(ii)
- 30 In any scheme for a sound and efficient system of agricultural finance, sufficient emphasis must be laid on the building up of a sound structure of primary institutions—whether co-operative credit 39(ii)

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societies or multi-purpose societies. The weakness of the co-operative structure seems to lie mainly in these institutions and more thought and effort should be devoted to their development. The generally favoured plan now is the establishment of strong multi-purpose societies able to employ competent paid staff for each group of contiguous villages, and these attempts should be encouraged by the Provincial Governments by providing the necessary staff for inspection and supervision.

- 31 While the establishment of new organisations, *eg.*, Agricultural Credit Corporations or Agricultural Banks, may be necessary in some regions such as the former Indian States, full use should be made of the existing institutions. 39(ii)
- 32 Separate institutions would be necessary to provide long-term credit, and land mortgage banks are the most appropriate agencies for this purpose. The establishment of an Agricultural Credit Corporation for the country as a whole is not opportune at present. 39(iii)
- 33 It should be possible for the commercial banks to provide finance for the marketing of produce to a much greater extent than at present when a number of regulated markets are established, the grading and standardisation of agricultural produce are developed and satisfactory warehousing arrangements are made. They should also be able to play a greater part in rural credit in the shape of advances on the security of produce and gold, and loans for the purchase of expensive agricultural equipment. 39(iv)
- 34 A satisfactory machinery to deal with the credit needs of "disadvantaged" farmers will have to be developed gradually, and the task will, in the first instance, have to be undertaken on an experimental basis. 39(v)
- 35 At present private moneylenders pay the major role in the provision of rural credit, and in any legislation intended to restrict and control their activities, Government should take account of the pace at which alternative machinery of a satisfactory type can be made available to agriculturists. 39(vi)
- 36 To enable commercial banks, co-operative banks and land mortgage banks to play an effective role in extending rural credit, it would be necessary to review the existing and proposed legislation concerning debt relief, money-lending, tenancy, and land tenures in so far as it may affect their position. 39(vii)

CHAPTER IV

PROPOSALS FOR THE EXTENSION OF BANKING FACILITIES

- 37 There is some scope for extending facilities for the receipt of deposits by an expansion in the number of branches of sound banks in semi-urban and rural areas, and of post office savings banks. The need of the rural areas for advances is considerable, and is capable of continued increase. Co-operative institutions are the most important agencies for providing credit and should therefore, receive special attention and assistance. 41
- 38 Remittance facilities are required by the rural people to a limited extent, but there is need to provide such facilities on large scale to banks and co-operative societies working in the rural areas. Safe deposit facilities are not available in the rural areas; nor is there any considerable demand for them at present. 41
- 39 The Imperial Bank and other commercial banks should be allowed and encouraged to expand upto taluka (or tehsil) towns, mandis or market towns, or other towns of some commercial or industrial importance. An expansion in the number of offices of the Imperial Bank is desirable in the interest of the rural areas as well as of the banking system as a whole. Co-operative banks can be established in the larger as well as smaller towns, and can go deeper into rural areas than commercial banks. Small villages can only be served by co-operative societies and rural post office savings banks. 42
- 40 Government should not assume an entirely passive attitude in regard to the extension of banking facilities but should take such steps as would create the necessary atmosphere for, and assist the promotion of orderly development of banking. 43
- 41 The measures to be taken by Government should be such as can be implemented immediately, and should take note of the present administrative and financial limitations. They should not include the establishment of new organisations, or other steps involving considerable additional capital outlay or current expenditure. 43
- 42 The grant of direct cash subsidies to support rural branches of banks is not recommended because
(i) Subsidies to particular banks, whatever the criterion applied for selection, will lead to charges of discrimination and favouritism and may effect on the credit of banks not selected : 44

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- (ii) the analogy of protection given to infant industries is not applicable to banking ;
- (iii) though demanded for a short period, the general tendency is for subsidies to perpetuate themselves ;
- (iv) in banking initial losses at new branches are not unusual ;
- (v) the present financial position of the Central Government and Provincial and State Government does not admit substantial subsidies being granted to the banking system;
- (vi) subsidies to commercial banks would be opposed by cooperative banks and societies.

The keeping of interest-free deposits with banks is also not favoured because

- (i) this arrangement would be inconsistent with the scheme of the Reserve Bank of India Act which requires the Central Government and the Provincial Governments to maintain all their balances with the Reserve Bank, and also requires the scheduled banks to keep minimum balances with that Bank ;
- (ii) it would lead to the locking up of considerable Government balances which may prove embarrassing to Government;
- (iii) it would also be open to some of the other objections which apply to the proposal for the grant of subsidies to banks.

43 The types of assistance to be offered to banks must generally be in the nature of indirect stimuli available to all banking institutions. The measures proposed for assistance are, therefore, of two types :

- (a) General proposals for assistance to all banking institutions, consisting of measures for the removal of impediments and for the provision of indirect types of stimuli available to all sound banks ; (b) Special measure for assistance applicable to cooperative banks and societies. Apart from these the promotion of banking activity must be through an increase in the number of post offices and branches of the Imperial Bank

44 impediments to the growth of the banking system arising from the deficit character of agriculture in this country could be removed only gradually by a comprehensive rural development programme. As, however, such development is not possible without extension of credit, schemes for the extension of

44

45(a)

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- banking facilities must form an integral part of the overall rural development programme.
- 45 The setting up of all efficient banking system is impossible without a well-developed transport system, and at the earliest opportunity ; Governments should review the position of, and increase the financial provision for, road development. Road plans should be coordinated with other plans for economic development such as those for railway, telegraph, postal and banking development. 45(g)
- 46 Banks can to some extent get over the difficulty of having to deal with illiterate customers by arranging their identification through the attestation of their thumb impressions by local persons of importance, keeping a record of their birth-marks, or keeping their photographs. The use of regional languages in the forms and books of banks would also be helpful. 45(c)
- 47 Conservatism of the rural population can be overcome by the association with banks of local persons of importance as directors or employees, and regular and persistent propaganda to educate the people in the use of banking facilities. This propaganda should not be entirely left to Government, but should also be undertaken by associations of banks. Officials of banks should deal sympathetically with the rural people and take active interest in rural social life and agricultural problems. 45(d)
- 48 The introduction of a scheme of deposit insurance, as in the U.S.A., is not considered opportune at present. As soon as the Reserve Bank's machinery for control and inspection of banks has been fully developed and a sufficient number of banks licensed under the Banking Companies Act, a Committee of experts should be appointed to go into the question, and consider a scheme limited to banks holding a license under the Act. 45(d)
- 49 The payment of a higher rate of interest on deposits at the rural branches of banks is neither practicable nor desirable. The rural people should be educated to look more to the security of their funds and other advantages such as advances at moderate rates, than to high interest rates on deposits. 45(e)
- 50 In so far as high operating costs of rural branches are due to the application of Shops and Establishments Act and the awards of Industrial Tribunals, it is recommended that such acts and awards should not be made applicable to offices of banks situated in towns having a population of less than 50,000. 45(f)

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| 51 | Existing legislation concerning money-lending, debt relief and allied matters should be reviewed and amended so as to place commercial banks on the same footing as the cooperative institutions. | 45(g) |
| 52 | Liberalisation of remittance facilities would encourage banks to open branches in the country-side and would lead to other beneficial results. | 46(a) |
| 53 | <p>Except for small amounts for which existing rates and minima may be allowed to continue, remittances allowed to commercial banks, cooperative banks and societies and indigenous bankers should, in future, be available to them at the under-noted rates:—</p> <p style="padding-left: 40px;">Upto Rs. 5,000..1/32 per cent. minimum Rs. 1/-
Over Rs. 5,000..1/64 per cent. minimum Rs. 1/9/-
(Actual telegram charges to be recovered in addition.)</p> <p>In the case of scheduled banks, these rates should apply to remittances on their own account as well as those on behalf of third parties. The special facilities now available to a scheduled bank under the Reserve Bank of India. Scheduled Banks, Regulations for remittance of funds should in future, be made available to it whether or not it maintains an account or an office at the place from which the remittance is desired. Remittances may be made from the branches of the Imperial Bank to any account with the Reserve Bank and not merely to the principal account. The feasibility of extending similar facilities to the provincial cooperative banks and their affiliated central banks should also be examined by the Reserve Bank so as to place these institutions on a par with scheduled banks.</p> | 46(a) |
| 54 | The Reserve Bank should see that adequate facilities are made available throughout the country for the conversion and exchange of notes and coin. The Imperial Bank should examine the feasibility of adopting at its branches the system of accepting tenders, where they are unduly large, on a guarantee basis. | 46(b) |
| 55 | Bank should be permitted to keep their iron safes and chest for safe custody in the strong rooms for treasuries and sub-treasuries. | 46(c) |
| 56 | More active steps than hitherto taken for the promotion of warehousing are urgently needed, and, as a short-term measure, the establishment of a Warehousing Development Board with funds contributed by the Central Government, the Reserve Bank and the Provincial and State Governments is recommended. The Board should receive, scrutinize and approve applications of commercial banks and cooperative | 46(d) |

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institutions for financial assistance for the construction of warehouses which would be of such specifications, and the erected at such centres as are approved by the Board. The assistance to be sanctioned in approved cases would take the form of a subsidy up to 25 per cent. of the cost and a long-term loan at a low rate of interest upto another 25 per cent. of the cost. The remaining 50 per cent. of the cost should be met by the bank or society concerned. Banking companies should be permitted to form subsidiaries for the purposes of constructing and running warehouses provided that not more than 5 per cent. of thier owned funds are utilised for this purpose. As an experimental measure, the certificates issued by such subsidiaries may be recognised as valid warehouse receipts by the Reserve Bank for the purpose of Section 17 (4)(d) of the Reserve Bank of India Act. Adequate arrangements should be made for the inspection of such warehouses to eliminate fraud.

- 57 Co-operative banks and societies would need special assistance and some subsidies in addition to the concessions and privileges they are already enjoying. The recent scheme of reorganization of cooperative banking undertaken in Bombay is approved and considered worthy of adoption, with such changes as may be necessary to suit local conditions, in other regions where the cooperative structure is reasonably sound. The scheme put forward in Madras for constituting a number of cooperative banks with limited liability in "major panchayat" villages is also supported. The Provincial Government should give the financial assistance necessary for its implementation. 47
- 58 The following special types of assistance should also be provided :— 47
- (i) The rates for postal remittances between co-operative institutions and the central financing agencies should be substantially lower than the normal rates. 47(i)
 - (ii) Rules regarding the maximum upto which co-operative societies may hold deposits in post office savings banks, the number of times they may operate on their accounts per week, and the maximum they could withdraw per week, should be liberalised. 47(ii)
 - (iii) Co-operative banks and societies should be approved for the appointment as authorized agents for the sale of National Savings Certificates. 47(iii)

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- 59 In the reorganization of the co-operative structure, adequate attention should be paid to the provision of qualified and experienced staff to manage, audit, supervise and inspect the co-operative institutions, and also to the need for keeping the movement free from personal or party feuds and from political interference in its day-to-day working. 47(a)&(b)
- 60 If Agricultural Credit Corporations or State-sponsored Agricultural Banks are established in any region, the same concessions and assistance as are available to co-operative institutions should be extended to them. 47
- 61 Co-operative banks should take increasing advantage of the financial accommodation available at concessional rates from the Reserve Bank of India. To make this possible, closer contact and liaison should be built up between the Reserve Bank and the co-operative banks to keep the Reserve Bank more closely informed of the inner working of co-operative banks and to enable it to place its advice and guidance more effectively at their disposal. 47
- 62 In order to implement the proposals made above certain consequential measures will also be necessary the organization and working of treasuries and sub-treasuries will have to be strengthened and improved: the number of currency chest and branches of the Imperial Bank will have to be increased, and the Reserve Bank will have to establish at least one office or branch in each major province or state. 48
- 63 The future structure of banking would thus consist of (a) the Reserve Bank of India with a branch or office in each major province or state. (b) the Imperial Bank of India and other commercial banks extending their activities to taluka or tehsil headquarters or other semi-urban centres. (c) the provincial and central co-operative banks with their branches or affiliated banks, extending to all towns or large villages or centrally situated villages, (d) State-owned and State-sponsored Agricultural Credit Corporations or Agricultural Banks and (e) a chain of land mortgage banks for each region. 49
- 64 The number of post offices doing savings bank work in the rural areas should be increased, and the following steps taken to improve their working— 50
- (a) The personnel doing savings banks work should be made to take more active interest in the promotion of savings banks and deal with depositors in a helpful manner.

TREASURIES AND THE EXTENSION OF BANKING FACILITIES

- 67 The conversion of non-bank treasuries into bank treasuries will neither bring large additional funds into the banking system nor will it take banks directly into the villages. It will, however, provide greater opportunities for the rural people to come into contact with banks and enable banks to serve a somewhat larger sector of the rural population, particularly bigger landlords, merchants and traders. It will also encourage the use of cheques, help reduce the handling of cash and result in some saving to the Provincial Governments. Steps should, therefore, be taken to convert non-bank treasuries into bank treasuries at as many centres as possible. 54, 55
& 56
- 68 There are 274 centres where the turnover on Government account exceeds Rs. 64 lakhs per annum but where the Government cash work is not being managed by the Imperial Bank. At 56 places out of these, the Bank already has an office and it should be possible for it to take over cash work at these places without much difficulty. At the remaining centres, the Imperial Bank and the Reserve Bank should jointly investigate the business potentialities and if sufficient general business is available to enable the Imperial Bank to cover from one-third to one-half of its overheads, arrangements should be made with that Bank 57

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to open its branches or treasury pay offices and take over the cash work within the next five years. The question of opening offices by the Imperial Bank at places where the treasury turnover may not be large but where the potentialities of general banking business are good should also be examined.

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| 69 | To encourage the Imperial Bank to expand further on the proposed scale, the rate of commission on turnover at its new branches and treasury pay offices should, at any rate for a period of five years, be fixed separately. In fixing the rate, account should be taken of the savings that would result to the Provincial Governments by the transfer of cash work to the Imperial Bank. | 58 |
| 70 | In transferring the cash work to the Imperial Bank care should be taken to see that the branches of the Bank doing cash work are situated close to treasuries. | 59 |
| 71 | Urgent steps should be taken towards the reorganization of treasuries for improving their efficiency and for enabling them to provide certain basic facilities essential for the extension of banks to the less developed areas. | 60 |
| 72 | The following measures suggested by the Reserve Bank are essential to bring the working of treasuries and sub-treasuries to the required level of efficiency :—

(a) The treasury and sub-treasury officers should be completely divested of their magisterial and other duties not connected with treasury work.

(b) There should be a complete separation of the treasury (or accounts) cadre from the general cadre.

(c) Systematic arrangements should be made for the training of the staff at the offices of the Reserve Bank and the Accountant-General. | 62 |
| 73 | The Provincial Governments are, to some extent, justified in claiming a share of the income realized on the issue of remittances, and the Reserve Bank should agree to their retaining the premium realised on remittances issued by treasuries and sub-treasuries. | 63 |
| 74 | The present practice of making payments by means of pay orders on the original bills should be replaced by the system of payment by cheques to as large an extent as possible. | 65 |

CHAPTER II

DESIRABILITY AND FEASIBILITY OF A MULTI-AGENCY SYSTEM

- 75 Although a change from the existing system in which the Imperial Bank functions as the sole agent of the Reserve Bank may result in a reduction in the number of non-bank treasuries and also in some addition to branches of banks, it is not desirable to effect the change under the present conditions in view of the following considerations :—
- 67, 68
- (i) The agency which handles the receipts and payments on Government account has also the custody of the currency chests and small coin depots and is responsible for providing facilities for exchange of notes and coin and remittance of funds to the Government departments, banks and the public. This combination of functions makes the selection of the Reserve Bank's agents a matter of particular difficulty. It is not possible to separate the various functions so long as cash continues to play an important role in the day-to-day transactions in the country.
- 69, 70
- (ii) The balances in the currency chests are so high that adequate cover in the form of Government securities cannot be provided by the majority of banks. The security has, therefore, to be found in the stability and solidity of the institution, and only first rate banks of unimpeachable standing can be entrusted with the work.
- 70
- (iii) Government do not at present maintain any balances with the Imperial Bank which initially provides funds to meet Government disbursements, whenever they exceed receipts. Only banks having large cash and liquid resources of their own can assume a similar responsibility.
- 71
- (iv) Under the existing system of accounting and adjustment of Government transactions, only banks functioning on branch-banking lines and able to provide an effective liaison at least at one of the offices of the Reserve Bank will find it possible efficiently to carry on the various duties incidental to the handling of cash work.
- 72

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| | (v) A multiplicity of agents will result in mis-direction of advices and wrong entries, and render the reconciliation of discrepancies in currency, remittance and Government transactions extremely difficult. | 74 |
| | (vi) As it is not possible to lay down objective criteria for the selection of agents of the Reserve Bank, a change in the present system will create a delicate and complicated problem of having to decide the competitive claims of different institutions. | 75 |
| | (vii) It is doubtful if any saving would result to the Reserve Bank by distributing the cash work among several agents. | 76 |
| | (viii) If a revision in the boundaries of provinces takes place at any stage, the multi-agency system will require re-definition of the regions allotted to different institutions and this will introduce another complication. | 77 |
| 76 | The entrusting of cash work to co-operative banks will present certain special difficulties :— | 78 |
| | (i) "Co-operation" is a Provincial subject; this militates against unified control which is necessary for undertaking Government cash work. | 78(i) |
| | (ii) The Reserve Bank does not have powers of control and supervision over co-operative banks in the way it has over the commercial banks. | 78(ii) |
| | (iii) The central co-operative banks and the banking unions are independent legal entities and branch banking has not developed to any great extent except in a few provinces. Moreover, no provincial co-operative bank has its own branch in any other province to facilitate transfer of funds between provinces or the adjustment of accounts with the Reserve Bank. | 78(iii) |
| | (iv) If co-operative banks undertake cash work, their dealing will largely be with non-members leading to neglect of their primary function of promoting the economic interests of members. They will thus lose their essential co-operative character, and jeopardise their claim to the privileges they now enjoy. | 78(iv);
(v) |
| | (v) The transfer of cash work to them would entail the grant of special subsidies or assistance which cannot be recommended. | 79 |

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| (vi) | The proposal that only the cash work should be entrusted to cooperative banks and the maintenance of currency chests and small coin depots should continue to be attended to by Government treasuries, would merely mean the duplication of the machinery, which is considered unnecessary. | 80 |
| (vii) | Several Provincial Governments have opposed the entrusting of cash work to cooperative banks in view of their weak and undeveloped condition in their respective areas. | 81 |
| 77 | It would not be in the interest of the country to do anything which will weaken or impair the organizational and financial strength of the Imperial Bank towards the building of which much of the nations efforts and resources have been spent. The present unsatisfactory features of the working of the Imperial Bank can be remedied by legislative and other measures. | 82 |
| 78 | The cash work at treasuries and sub-treasuries in the provinces at centres where the Reserve Bank is not established should, therefore, continue to be handled either by the Imperial Bank as agent of the Reserve Bank, or by Government themselves. | 82 |

CHAPTER III

FUTURE ROLE OF THE IMPERIAL BANK IN THE BANKING AND TREASURY SET-UP

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| 79 | The role of the Imperial Bank in the future banking and treasury set-up of the country should primarily be that of an auxiliary to the Reserve Bank. | 84 |
| 80 | The change in the political status of the country should eliminate complaints against the Bank which arise from political causes. As regards other complaints from the banking and business community, the following remedial measures are suggested :— | 84 |
| | (i) Some of the important powers vested in Government by the Imperial Bank of India Act, 1920 which were allowed to lapse in 1934, should be re-assumed by Government. The appointment of the Managing Director and the Deputy Managing Director should be subject to the approval of the Central Government who should also have the right to demand their removal from office if they do not continue to enjoy Government's condence. The Government Director on the Board of the Bank | 84(1) |

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should be re-empowered to ask for the postponement of decisions on questions having a bearing on the national policy of the Government and for the review of those already taken. Government representation on the Central Board should be more effective and nominated directors should have seats on the Committee of the Central Board and be entitled to participate and vote at all meetings of the Committee. Alternatively, the constitution of the Bank should be changed on the model of that of the other commercial banks, placing the overall policy and the general superintendence of the Bank in the charge of a Chairman whose appointment would be subject to the approval of the Central Government, and a Board of Directors, two of whom will be nominated by the Government, while the day-to-day internal working of the Bank would be entrusted to a General Manager who will be an employee of the Bank and will not have a seat on the Board.

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| (ii) | The power of the Bank to execute proxies on behalf of shareholders under general powers of attorney should be removed, and in view of the special and semi-public character of the Bank the provisions of clauses (iii) and (iv) of Section 12 of the Banking Companies Act, 1949 should be made applicable to it. | 84(2) |
| (iii) | The cost to the Imperial Bank of managing the chests, and the monetary value of the various benefits it derives from their use should be worked out in detail by the Reserve Bank in consultation with the Imperial Bank, and it may be ascertained whether remittance facilities allowed to other banks cannot be extended beyond those recommended in paragraph 46(a) of the Report. | 84(4) |
| (iv) | To provide fuller representation to the various regional interests on its Local and Central Boards, the Bank may be asked to establish one or two additional Local Head Offices. | 84(5) |
| 81 | The assurance given to the Government of India that all senior appointments in the Bank will be Indianized by 1955, should be regarded as reasonably satisfactory. | 84(3) |
| 82 | The Imperial Bank should continue its commercial activities, and the existing restrictions on its business are considered sufficient. | 84(4) |

PART IV

TREASURY ARRANGEMENTS IN THE STATES

CHAPTER I

NECESSITY FOR SEPARATE TREATMENT

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| 83 | Federal financial integration implies uniformity between the provinces and states in banking and treasury arrangements in respect of the Central as well as State transactions. Every State should appoint the Reserve Bank as its banker and entrust it with all its monies and balances, free of interests. The Reserve Bank must also be entrusted with all the remittance, exchange investment and other banking transactions as well as with the management of the public debt of each State. Any other bank can handle the cash work of any State only as the agent of the Reserve Bank. | 86, 87 |
| 84 | The Majority of banks now handling cash work in the States do not satisfy the conditions for being appointed as agents of the Reserve Bank. Excepting the Hyderabad State Bank none of the other banks has been entrusted with currency chests and small coin depots and their ability to handle this work is doubtful. As such the appointment of these banks as agents of the Reserve Bank without a detailed and thorough examination of the working of each individual bank, is not without considerable risk. | 88 |
| 85 | At the same time, it has to be recognized that the banks handling cash work in States were brought into being with State assistance and patronage, and the sudden withdrawal of such support from them may seriously damage their position, resulting in the curtailment of banking facilities now available to the Governments and the people of the states and also in financial loss to the State Governments. The banks as well as the State Governments should, therefore, be given sufficient time to adjust themselves to the new circumstances. It is also desirable to allow banks an opportunity to prove their worthiness and not prejudice their case by giving the Imperial Bank a monopoly of Government business in the states. | 89 |
| 86 | The existence of a number of agreements between the former rulers and some banks is another complicating factor, and it may not be desirable to terminate these agreements all at once. | 89 |

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87 The present organization of the Imperial Bank does not also seem to be adequate for large scale expansion in the states, in addition to the expansion recommended in the provinces.	90
88 These considerations suggest that it would not be advisable to take a final and irrevocable decision on the question of conduct of cash work in the states at the present stage. Arrangements should be made to carry on the cash work for five years, largely with the existing machinery, and the existing agreements with the various banks should be allowed to run their course so long as they are not inconsistent with the scheme of federal financial integration and the new set-up. During this period only such adjustments should be effected as are incidental to federal financial integration and the appointment of the Reserve Bank as banker to all State Governments, or as may immediately be necessary in the light of other relevant considerations, and to the extent it is not possible to use the existing institutions to handle cash work, arrangements should be made to manage the work departmentally.	91,92
89 At the end of 5 years from the 1st April 1950, the whole question of the management of cash work at treasuries and sub-treasuries in the states and the feasibility or otherwise of entrusting that work to the banks now handling it, or to any other agency or agencies, should be re-examined by another committee.	91

CHAPTER II

PROPOSALS REGARDING INDIVIDUAL STATES

Hyderabad

90 The Reserve Bank should be appointed as banker to the State, and the various central banking functions of the Hyderabad State Bank should be transferred to that Bank.	98
91 The Hyderabad State Bank should be appointed as agent of the Reserve Bank in the State for five years, and be permitted to manage cash work at treasuries and sub-treasuries at centres where it was managing the work on the 1st April 1950.	98(a)
92 The cash work of the Government of India at Hyderabad and Secundrabad and the custody of the Reserve Bank chests at those places should be transferred from the Imperial Bank to the Hyderabad State Bank.	98(a)

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| 93 | As soon as possible, the Reserve Bank should establish a branch at Hyderabad, and take over the cash work at that centre from the Hyderabad State Bank. | 98(a) |
| 94 | The agreement appointing the Hyderabad State Bank as agent of the Reserve Bank should follow the broad Pattern of the agreement between the Reserve Bank and the Imperial Bank. The basis for calculating the remuneration payable to the Hyderabad State Bank for doing Government business should also be the same, and be related to the estimated cost of the work. | 98(a) |
| 95 | The transfer of the balances of the State Government from the Hyderabad State Bank to the Reserve Bank may be effected in stages to be decided by mutual agreement between the Reserve Bank and the State Government, in consultation with the Hyderabad State Bank, and failing such an agreement, by the Central Government. | 98(b) |
| 96 | Until the Reserve Bank is able to establish an office at Hyderabad, the management of the existing public debt of the State may be left to the State Bank for the convenience of the holders. The issue and management of all new loans of the State and all work in connection with the purchase and sale of securities and their safe custody must, however, be transferred to the Reserve Bank forthwith. | 98(b) |
| 97 | The branches of the Hyderabad State Bank having the custody of the chests of the Reserve Bank should be constituted as agencies of the Reserve Bank under the Reserve Bank of India Remittance Facilities Scheme, and be permitted to draw and encash remittances. | 98(c) |
| 98 | Until the establishment of a branch of the Reserve Bank in Hyderabad State, the chests in the State should be under the jurisdiction of the Bombay Currency Officer. The Hyderabad State Bank has already an account with the Bombay Office of the Reserve Bank of India, and all adjustments with the Hyderabad State Bank may be made through this account. | 98(d) |
| 99 | An agreement may be reached between the Central Government and the State Government that, during the period the State Bank acts as agent of the Reserve Bank, the powers of Government in regard to the appointment of the President and other directors of the State Bank, the power to supersede the Board or to place the Bank in liquidation, or to approve its bye-laws, shall be exercised by the State Government only | 98(e) |

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after the previous approval of the Central Government, who shall also be competent to issue directions to the State Government in regard to the exercise of all these powers.

Madhya Bharat

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| 100 | The present arrangements for the conduct of cash work should be continued except at Indore where the Imperial Bank should undertake State Government business in addition to that of the Central Government which it is managing at present as agent of the Reserve Bank. | 102 |
| 101 | The State Government's balances with the commercial banks should be transferred to the Reserve Bank forthwith, except those with the Bank of Indore which should be transferred gradually. | 102 |

Mysore

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| 102 | At Bangalore, the cash work may continue to be handled by the Imperial Bank, but this should be done under its general agreement with the Reserve Bank. As soon as possible, the Reserve Bank should establish an office, and take over the Government business and the custody of the chest from the Imperial Bank at Bangalore. | 104 |
| 103 | The close connection between the State Government and the Bank of Mysore should not be broken too suddenly, and a certain portion of the Government balances with that Bank may be allowed to remain with it for some years. | 104 |

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| 104 | With the appointment of the Reserve Bank as banker to the State it will be unnecessary for the State Government to maintain balances with any other bank, and the accounts maintained by the State Government with the various banks inside and outside the State should be closed. | 107 |
| 105 | As regards the cash work, this should be entrusted to the Imperial Bank at Kapurthala, if the bank is prepared to handle it under its general agreement with the Reserve Bank, but if it is unwilling to manage the business on these terms, Government should make arrangements for the work to be carried on departmentally at that centre. At other centres in the State also, Government must, for the time being, continue to conduct the cash work departmentally. | 107 |

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- 106 The monopoly of general banking business and other extraordinary concession enjoyed by the Imperial Bank should be terminated. 107

Rajasthan

- 107 The Imperial Bank should be appointed agent of the Reserve Bank at Sambhar, Jodhpur and Alwar and entrusted with the cash work of the Central and State Governments at those centres. As soon as the agreement with the Bank of Jaipur expires, the Imperial Bank should also be appointed agent of the Reserve Bank to manage Government business at Jaipur. At all these places, the State and Central Government business should be undertaken by the Imperial Bank under its general agreement with the Reserve Bank, and its present agreements with the former Governments of Alwar and Jodhpur should be terminated. 112

- 108 At all other places the State Government should make their own arrangements for the conduct of cash work. 112

- 109 The banks (other than the Imperial Bank) which are now handling the cash work of the State Government should be allowed to handle it only for the period of the existing agreements with them, and thereafter until such time as the State is in a position to establish treasuries with currency chests on the lines of those in the provinces. The cash work will be managed by them during this period on the existing basis, and none of the banks will be appointed agents of the Reserve Bank or be entrusted with the custody of the chests. If when the cash work is taken away from them, it is felt that the sudden withdrawal of the Government balances now being held by these banks will have adverse effect on their credit, arrangements similar to those suggested for other states may be made in this State also to spread the effect of the Change on the banks over a period of time. 112

Saurashtra

- 110 The Imperial Bank may continue to be entrusted with treasury work at Rajkot, but this should be under its general agreement with the Reserve Bank and not under a separate agreement with the State Government. 116(1)
- 111 At the remaining centres, the State Government should arrange for the cash work at treasuries and sub-treasuries to be carried on departmentally. 116(3)

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- 112 At Bhavanagar and Palitana, where the cash work has so long been managed by the Bank of Bhavanagar (now the State Bank of Saurashtra) and the Bank of Palitana respectively, these banks may continue to handle the cash work only for a limited period until the Government are able to set up their own organization. The cash work will be managed by these banks under their existing arrangements with the State Government, and they should not be appointed as agents of the Reserve Bank. 116(2)
- 113 The existing arrangements with the Central Bank of India for the receipt of surplus balances at the branches at Jamnagar, Wadhwan, Jetpur and Porbandar, and remittance of funds between its branches, and those with the Imperial Bank and the Central Bank for Ways and Means advances are inconsistent with the scheme of financial integration and appointment of the Reserve Bank as banker to the State, and should be gradually liquidated. 116(4)
- 114 The balances of the State Government with the various banks should be withdrawn and transferred to the Reserve Bank as soon as this can be arranged without causing undue strain on the banks concerned. 116(4)

TRAVANCORE AND COCHIN

- 115 The Imperial Bank which is at present managing the Central Government treasury work at Trivandrum should also be entrusted with the business of the State at that centre under its general agreement with the Reserve Bank. 119(1)
- 116 The Central Bank may continue to handle the State Government cash work at Ernakulam and at the sub-treasury at Trichur on the existing basis until the expiry of its present agreement on the 1st February 1951. Thereafter, the Government must make their own arrangements for the management of the work. 119(2)
- 117 At the remaining centres, the State Government should continue to carry on the work through their own staff. 119(3)
- 118 The agreements with the Imperial Bank dated the 13th May 1937 and 6th November 1944 for the payment of interest on two State loans may be allowed to run their course until the relative loans are repaid and payment of Government dues and for purchase. The agreement dated the 21st June 1920 for receipt

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and sale of Government of India securities should be terminated as soon as the necessary arrangements can be made, and the work relating to the purchase and sale of securities should be transferred to the Reserve Bank.

- 119 The existing arrangements with the various banks for the remittance of funds on behalf of the State would no longer be necessary, and should be gradually wound up. 119(4)

Miscellaneous

- 120 The position of State-owned and State controlled banks regarding which no specific recommendations have been made should be individually examined in consultation with the Reserve Bank, and action taken in the light of its recommendations and according to the general principles set out in the Report. 120
- 121 No recommendations have been made in regard to the State of Jammu and Kashmir as its position has been regarded as special in many respects. 121
- 122 States merged with the neighbouring provinces or those constituted into Chief Commissioner's provinces have also not been specifically dealt with as these areas are not covered by the expression "States" and "Unions" in respect of which the Committee has been asked to make recommendations. The problems of the areas which have lost their separate entity cannot be separated from those of the provinces in which they have been merged. A separate treatment of the areas which have been constituted into Chief Commissioners' provinces is also not possible, and arrangements in those areas should be gradually re-aligned with those of the other provinces. 121

PART V

FORMATION OF A NEW STATE-SPONSORED BANK

- 123 The proposal that the Reserve Bank should establish a large number of its branches and manage Government cash work at all treasuries and sub-treasuries is not supported. 123
- 124 It is, however, recognized that the present organization of the Reserve Bank is inadequate to meet the requirements of the country, and energetic steps should be taken to secure the establishment of a branch of the Bank at the headquarters of each of the major provinces and states, special attention being paid to the requirements of states where the Reserve Bank has no office at present. 124,126

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- 125 Limited expansion on these lines, which is necessitated by the large size and growing requirements of the country and the increase in note circulation and public debt since the war, would smoothen the process of financial integration and facilitate closer contact between the Reserve Bank and the Provincial and State Governments, and between the Reserve Bank and other banks; it is also desirable on strategic and other grounds. 126
- 126 The proposal for the formation of a new State-sponsored bank, which has to be examined in the light of the recommendation for the conduct of cash work in the provinces and states, is considered unnecessary. 127
- 127 The formation of a new State-sponsored bank by the consolidation of several small banks in the states, although attractive at first sight, will present many difficulties. The principal difficulty will be in defining the relative spheres of the activities of the Imperial Bank, the new State-sponsored bank and other banks. 128,129
- 128 The Imperial Bank is, to all intents and purposes, functioning as a State-sponsored bank, and the people can legitimately look forward to its being developed as a national institution. The multiplication of institutions performing similar functions and competing with one another with State-aid will no be desirable. 129

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APPENDICES



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APPENDIX I

(Reference Paragraph 4)

QUESTIONNAIRE

Notes.—(1) Reasons for replies may kindly be given, wherever possible..

- (2) If information furnished in reply to any question is based on any official or other enquiry, whether published or not, a reference thereto may kindly be made in the reply.

Q. 1. (a) What is your view as regards the rural population having acquired higher purchasing power in recent years ?

If it is your view that the rural population has acquired higher purchasing power during recent years how is this power being utilised at present ?

- (b) Do you think there is a substantial margin which is being, or could be, saved ?

- (c) What is your estimate of such savings per year :

- (i) in the whole country ;
- (ii) in your Province, State or Union ;
- (iii) in your District ?

- (d) Can you give any idea of the distribution of such savings over the various sections of rural population, viz. :—

- (i) Big landholders ;
- (ii) Small landholders ;
- (iii) Tenants and labourers ;
- (iv) Others ?

- (e) In what parts of your Province, State or Union is there a relatively greater concentration of savings, or is it your opinion that the savings are more or less evenly distributed among the rural areas throughout the country ?

- (f) In what form are the savings held at present ?

- (g) Do you consider that the present rate of savings is likely to be maintained ?

Q. 2. What facilities are being offered at present by commercial banks or co-operative banks to people in rural areas in the matter of :

- (a) receiving deposits ;
- (b) remittance of funds and tax collections ;
- (c) advances against gold and silver, produce and other acceptable types of security ;
- (d) safe deposits ?

Q. 3. In the light of your knowledge of the present day conditions in rural areas and of the measures being taken by Government to develop the countryside, could you indicate the scope for the extension in such areas of banking facilities in the various fields, *viz* :—

- (a) receipt of deposits of various kinds ;
- (b) making of advances ;
- (c) transfer of funds ; and
- (d) safe custody of valuables ?

Q. 4.—(1) What are the impediments at present in the way of extending banking in rural areas, and what is your solution for overcoming these impediments in so far as these arise from

- (a) illiteracy of the rural population and their inability to handle pass-books and cheques and generally to deal with banks ;
- (b) conservatism and unwillingness to deposit their funds in banks ;
- (c) inability of banks to pay a rate of interest sufficiently high to attract villagers to deposit their savings with banks ;
- (d) high operating costs due to
 - (i) insufficiency of deposits and absence of facilities for local investment of funds ;
 - (ii) necessity of having to make special security arrangements ?

(2) Do you consider that there are any legislative or other restrictions in any part of India which require to be removed to facilitate such extension ?

Q. 5. (1) Have Co-operative banks in your Province, State, or Union developed sufficiently, or do they give promise of developing adequately in the near future ?

(2) Do you consider that other systems of organized banking should be introduced in the rural areas in your Province, State or Union ? If so, to what extent ?

Q. 6 (1) Having regard to the various difficulties, what measures do you suggest to extend banking facilities in rural areas ?

(2) Will the objective be best served by

- (a) offering Government assistance to
 - (i) the Imperial Bank of India, or
 - (ii) other commercial banks, or
 - (iii) co-operative banks ;

and arranging with them to open a specified number of branches at certain centres within a given period ;

- (b) extending the facilities available through the Post Office Savings Banks ; or
- (c) providing facilities for opening of deposit accounts at treasuries and sub-treasuries ?

What precise role could the commercial banks, co-operative banks, post offices and treasuries and sub-treasuries be required to play in any scheme for the development of banking facilities in rural areas ?

(3) Do you suggest the establishment of mobile banks in this country ? If so, please give details of your scheme with figures of estimated cost of maintaining such banks.

(4) Will you indicate which of the various measures suggested are suitable for immediate adoption ?

Q. 7. In so far as the impediments in the way of opening a branch in a rural area arise from high operating costs in relation to its earning capacity, what will be the scale and nature of the governmental assistance that will be required to make it possible for a bank to maintain its branch there ?

Q. 8 (1) Do the co-operative banks in your Province, State, or Union receive any special facilities or assistance from Government or the Reserve Bank of India? If so, indicate the facilities or assistance being received at present.

(2) If you consider that the concessions being granted at present are inadequate, what further concessions do you recommend, and how will these be used ?

Q. 9. What is your view of the present arrangements for the management of Government cash work under which the work is handled by the Imperial Bank at places where there are branches of that bank and by Government treasuries and sub-treasuries at other centres ? If you consider the present arrangements are defective, is this due to administrative shortcomings or to any inherent fault in the present system ? Do you consider any change necessary, or advisable, in the existing system. If so, please indicate the lines on which changes or improvements are possible.

Q. 10. Do you suggest that the cash work of Government where this is directly managed by Government should, wherever possible, be transferred to a bank or banks ?

Q. 11. On principle, which system do you prefer, the one existing at present under which one commercial bank has the virtual monopoly of treasury business, or one under which more than one bank may undertake this work ? The following points should be taken into account in answering this question :—

- (a) security of Government monies, balances in the small coin depots of the Government of India, and currency chest balances of the Reserve Bank ;
- (b) cost of management ;
- (c) facilities available under existing system in the matter of :
 - (i) receipts and payments on account of Government ;
 - (ii) exchange of notes and coin ;
 - (iii) remittance of funds.

Explanatory Notes :

- (1) By Section 39 of the Reserve Bank of India Act, the Bank has been placed under an obligation to issue rupee coin in exchange for notes and notes in exchange for coin. It is also obliged to supply notes of lower denominations for those of higher denominations and *vice versa*. This obligation is discharged by the Bank by maintaining chests of its Issue Department at the branches of the Imperial Bank of India and treasuries and sub-treasuries. The chests are kept adequately stocked with notes and coins and are

operated upon by branches of the Imperial Bank of India and treasuries and sub-treasuries, as and when required to meet the demand. The chests also enable the Reserve Bank to maintain the purity of note circulation, as their existence makes it possible for old and soiled notes to be withdrawn and replaced by new notes. A further advantage is that the reserve stock of notes and coin in the chests makes it possible for remittance facilities to be given to Government departments, commercial banks, co-operative banks and the public on an extensive scale. Since, under the arrangement, the branches of the Imperial Bank of India and treasuries and sub-treasuries are permitted to deposit their surplus funds into the chests and withdraw therefrom the amounts required by them, the system is also of great use to the Imperial Bank and Government inasmuch as it enables them to work with minimum cash balances at centres where they have the custody of the chests, and to remit funds between different centres free of charge.

On the 31st October, 1949 the number of chests in the custody of the Imperial Bank was 142, and notes and coins of the total value of Rs. 3,26,81,36,380 were stocked in these chests. The number of chests in the custody of treasuries and sub-treasuries was 919 containing notes and coin of the total value of Rs. 1,06,12,33,741

Similarly, the requirements of the public for small change are met through the net-work of small coin depots which are maintained at several branches of the Imperial Bank of India and at certain treasuries. Small coin for Rs. 2,49,46,618-10-0 was held on the 31st October, 1949 in 100 small coin depots in the custody of the Imperial Bank, and for Rs. 16,76,430 in 11 small coin depots in the custody of treasuries.

- (2) The Government treasury work is managed by the Imperial Bank of India as agents of the Reserve Bank of India who are the statutory bankers of the Central Government and Provincial Governments. The Imperial Bank of India's relations with the Reserve Bank of India are regulated by an agreement entered into between the two banks under Section 45 of the Reserve Bank of India Act. In accordance with this agreement, the remuneration payable to the Imperial Bank for the management of treasury work takes the form of a commission on the total of receipts and disbursements dealt with annually on account of Government. The turnover commission for the current quinquennium which ends on the 31st March 1950 is calculated on the following basis :—

On the first 150 crores	1/16 of one per cent.
On the next 150 crores	1/32 of one per cent.
On the next 300 crores	1/64 of one per cent.
On the remainder	1/128 of one per cent.

In addition to the turnover commission, the Imperial Bank is also paid in consideration of the maintenance of branches not less in number than those existing at the commencement of the Reserve

Bank Act, a fixed annual sum, the annual payment for the current quinquennium being Rs. 4 lakhs. The total remuneration paid to the Imperial Bank of India for the year ended the 31st March 1949 amounted to Rs. 27,05,746-14-2 as shown below :—

Turnover of Government and

Railway Transactions :—

	Rs.	Rs.
India	971,78,88,280-5-1	
Pakistan	48,65,96,471-12-8	
TOTAL	1020,44,84,752-1-9	
Total of Reserve Bank remittances issued or paid at the branches of the Imperial Bank on which no premium is charged (India and Pakistan)		
	130,90,75,363-2-9	
Total turnover.		1151,35,60,115-4-6
Commission.		23,05,746-14-2
Fixed annual charge for maintenance of agreed number of branches		4,00,000-0-0
Total commission		27,05,746-14-2

(3) The total amount of the Reserve Bank remittances issued by the Reserve Bank of India, Imperial Bank of India, and treasuries and sub-treasuries during the year ended September 1947, the latest period for which the figures are available, came to Rs. 15,01,20,63,727 (both for India and Pakistan) made up as follows :—

	Rs.
Reserve Bank of India	6,34,37,87699
Imperial Bank of India	7,85,59,91,138
Treasuries and sub-treasuries	81,22,84,890
TOTAL	15,01,20,63,727

Q. 12. Do you consider commercial banks (other than the Imperial Bank) and Co-operative banks as at present organised, adequately equipped to be entrusted with the custody of

- Government balances ;
- small coin depots ; and
- currency chests of the Issue Department of the Reserve ?

Q. 13. (i) To what extent could banking facilities be extended by entrusting the cash work at places where it is being directly managed by Government

- to certain selected commercial banks ;
- to co-operative banks ;
- to a new State-sponsored bank having a net-work of branches Bank of India ?

(ii) Which, out of these, do you consider as the most suitable agency for the management of treasury business ?

Q. 14. (1) (i) If you suggest that treasury work at places where it is not at present being managed by the Imperial Bank should be entrusted to commercial banks (other than the Imperial Bank), what principles should be adopted in selecting the banks to whom the work will be entrusted ?

(ii) Do you suggest that a bank must satisfy certain minimum requirements regarding paid-up capital and reserves, and standards of working before being entrusted with Government cash work ?

(2) (i) How will the treasury work be divided amongst the banks ?

(ii) Do you suggest that this should be done on a regional basis, each bank being given monopoly of work in that region ? What should be the extent of each region ?

(iii) On what basis should treasury business be given to banks, when in a region there are more than one bank qualified to be entrusted with such business ?

(iv) Do you advise that the States and Unions whose financial integration with the Indian Union will take effect from the 1st April 1950 should be included in the regions drawn up for this purpose ?

(3) (i) Do you consider whether any restrictions should be imposed on the business activity of banks entrusted with the management of treasury business on the lines of those imposed on the Imperial Bank ? If so, what precise restrictions do you propose ?

(ii) If you agree that the effect of such restrictions will be the curtailment of credit facilities available at present, do you consider such a development desirable in the present conditions ?

(4) (i) Do you favour a measure of internal control and supervision by Government in the case of commercial banks entrusted with the management of treasury business ? If so, what should be the form of such control ?

(ii) In particular, do you consider it desirable for this purpose that the Government should have power

- (a) to appoint their Managing Directors or General Managers ;
- (b) to nominate one or more members on the Central and Local Boards and their Committees ;
- (c) to approve their Articles of Association ; and
- (d) to audit their books and verify the balances at regular intervals ?

(5) Do you suggest that a bank entrusted with such work should be required to deposit Government securities ? If so, what should be the amount of such deposit, and how should it be determined ?

(6) What other measures do you suggest to safeguard the security of Government monies, and the Reserve Bank balances to be left with banks ?

(7) Should it be a condition for the transfer of the treasury work to a bank that it will maintain branches at all the places where the treasury work is entrusted to it, and that none of the said branches will be closed without the permission of Government ?

(8) (i) How should banks be remunerated for undertaking the management of treasury work ? Should the remuneration take the form of

(a) Government taking a share of the operating cost of the branches ;
or

(b) an interest-free deposit ; or

(c) a commission on the total turnover of Government transactions ;
or

(d) special facilities for remittance of funds ?

(ii) In addition to any other remuneration that the banks will receive, do you also suggest that they should be provided with guards and accommodation in the treasury buildings at the cost of Government ?

Q. 15. (1) Do you consider that the co-operative banks have a special claim to be entrusted with the management of treasury business

(a) in the Provinces of India ;

(b) in the States or Unions of States ?

If so, in what way ? Will not the management of treasury business hamper the other activities of the co-operative banks ?

(2) What changes or improvements have been effected in the working of the co-operative banks since the Banking Enquiry Committee reported in 1931 so as to inspire confidence in the capacity of the co-operative bank to deal with Government treasury work ? Kindly give your appraisal of the working of the co-operative banks in your Province, State or Union.

(3) What criteria will you lay down for selecting co-operative banks to whom the treasury work will be entrusted

(4) If the Provincial, States or Union Governments are unable to provide the Central Government and the Reserve Bank of India with the necessary indemnity, what control should be exercised by the Central Government on the co-operative banks to whom the treasury work is entrusted to ensure the security of Government monies and the Reserve Bank balances to be left with them in the Provinces, States and Unions.

(a) where there is a Provincial Co-operative Bank, or other apex bank ; and

(b) where there is no such bank ?

(5) If you suggest that it is necessary for this purpose that the Central Government should assume effective control of the Provincial Co-operative Banks in the Provinces, States or Unions in which the treasury business is entrusted to co-operative banks, do you consider such a control practicable ? How far will this control be consistent

(a) with the basic principles underlying the co-operative movement ;

(b) with the control and supervision at present exercised on the movement by the Provincial Governments ?

6) As the co-operative banks do not have any branches outside one Province or State, what arrangements do you contemplate for clearing inter-government, currency chest and remittance transactions. If the proposal to entrust the management of treasury business to co-operative banks is accepted ?

Explanatory Notes :

- (1) Under the arrangements now obtaining neither the Central Government nor the Provincial Governments maintain any balances with the Imperial Bank of India. All payments on behalf of the Central and Provincial Governments are initially made by the Imperial Bank of India from their own cash balance and subsequently adjusted by their Central Accounts Office with the Central Accounts Section of the Reserve Bank of India at Calcutta, where the main accounts of the Central Government as well as of the Provincial Governments are maintained. Similarly, all receipts on behalf of the various Governments are initially taken into the cash balance of the Imperial Bank, and later on adjusted by the Central Accounts Offices of the two banks at Calcutta. Payments or receipts by the Provinces on behalf of the Central Government, or by one Province on behalf of another are also adjusted through the Central Accounts Section of the Reserve Bank of India at Calcutta which acts as a clearing house for all inter-governmental transactions.
- (2) It has been stated in the Explanatory Note under Question 11 that it is open to the branches of the Imperial Bank of India and treasuries and sub-treasuries maintaining currency chests to operate on the currency chest balances whenever required. All such withdrawals from, and deposits into, the chests are reported immediately to the Circle Currency Officer of the Reserve Bank of India who arranges for the adjustment of the net amount withdrawn or deposited, as the case may be, with the Imperial Bank of India, or the concerned Government.
- (3) Under the Reserve Bank of India Remittance Facilities Scheme, the offices of the Reserve Bank of India are authorised to issue remittances on branches of the Imperial Bank of India and all treasuries and sub-treasuries maintaining chests of the Issue Department of the Reserve Bank of India. The branches of the Imperial Bank of India are empowered to draw Reserve Bank remittances on treasuries and sub-treasuries maintaining chests of the Issue Department of the Reserve Bank of India at places where there are no branches of the Imperial Bank, and treasuries and sub-treasuries maintaining such chests on other such treasuries and sub-treasuries, on the branches of the Imperial Bank of India having the custody of chests and on the offices of the Reserve Bank of India. All receipts and payments under these drawings are treated as on account of the Reserve Bank, and are adjusted against the balances of the Imperial Bank of India, the Central Government, or the Provincial Governments as the case may be, on receipt of the relative advices by the Central Accounts Section of the Reserve Bank at Calcutta.

(7) (i) How should the co-operative banks be remunerated for undertaking the management of treasury work ? Should the remuneration take the form of

- (a) Government taking a share of the operating cost of the banks ;
or
- (b) an interest-free deposit ;
- (c) a commission on the total turnover of Government transactions -
or
- (d) more liberal facilities for remittance of funds ?

(ii) In addition to any other remuneration that the co-operative bank will receive, do you also suggest that they should be provided with trained personnel, guards, and accommodation in the treasury buildings at the cost of Government ?

Q. 16. (1) (i) If you favour the establishment of a new State-sponsored bank, what should be its capital structure, constitution, powers and functions ?

(ii) What should be Government's interest in the proposed bank ?

(2) Having regard to the prevailing difficulties in the way of raising funds, and obtaining trained personnel and suitable accommodation, do you consider the establishment of such a bank feasible under the present conditions ? Will the establishment of such a bank be a commercial proposition ?

(3) Do you envisage the grant of some kind of financial support to such a bank ? If so, what should be the nature and extent of such support ?

APPENDIX TO THE QUESTIONNAIRE

Terms of Reference of the Committee

(Extract from Government of India Resolution No. F. 4(196)-FI/49, dated the 8th November, 1949)

"In pursuance of the undertaking given in the Constituent Assembly during the debate on the devaluation of the rupee that steps will be taken to provide suitable governmental assistance for the extension of banking facilities in rural areas, the Government of India have decided to appoint a Committee with the following terms of reference :—

- (1) To consider the measures that can be immediately adopted for the extension of banking facilities in rural areas.
- (2) To review in this connection the present arrangements for the management of the cash work at government treasuries and sub-treasuries including those where the work is at present managed by the Imperial Bank of India.
- (3) To consider to what extent the extension of banking facilities will be facilitated by entrusting the cash work at government treasuries and sub-treasuries at places where the work is not at present being managed by the Imperial Bank of India to commercial

banks and co-operative banks, and in this connection to consider :—

- (a) the future management of such work in the Provinces of India as well as in the States and Unions whose financial integration with the Indian Union will take effect from the 1st April, 1950 ; and
 - (b) to what extent the management of the cash work in government treasuries and sub-treasuries could be entrusted to either a new State-sponsored bank or to one or more of the existing commercial banks or co-operative banks ; and the conditions to be fulfilled by, and the assistance to be given to such banks.
- (4) To make recommendations in regard to the banks which may now be handling the treasury work in the States and the Unions.
- (5) To make any other recommendations.”



APPENDIX II

List of institutions and persons from whom replies to the questionnaire were received.

(Reference paragraph 5)

I. GOVERNMENT DEPARTMENTS AND OFFICERS**A. Central Government—**

1. Ministry of Education, New Delhi.
2. Ministry of Railways (Railway Board), New Delhi.
3. Ministry of Works, Mines and Power, Indian Bureau of Mines, New Delhi.
4. Central Waterpower, Irrigation and Navigation Commission, New Delhi.

B. Provincial Governments—

5. Government of Bihar, Finance Department, Patna.
6. Government of Madhya Pradesh Finance Department, Nagpur.
7. Government of Madras, Finance Department, Madras.
8. Development Minister, Government of Punjab, Simla.
9. Government of Punjab, Development Department, Simla.
10. Government of Punjab, Education Department, Simla.
11. Government of Punjab, Finance Department, Simla.
12. Government of Uttar Pradesh, Finance Department, Lucknow.
13. Chief Commissioner, Bhopal.
14. Chief Commissioner, Cooch Behar.
15. Chief Commissioner, Coorg, Mercara.
16. Chief Commissioner, Delhi.
17. Chief Commissioner, Himachal Pradesh, Simla.
18. Chief Commissioner, Panth Piploda, Ajmer.

C. Governments of States—

19. Government of Hyderabad, Finance Department, Hyderabad (Dn.).
20. Government of Madhya Bharat, Finance Department, Gwalior.
21. Government of Mysore, Bangalore.
22. Government of Patiala and East Punjab States Union, Finance Department, Patiala.

D. Accountants-General.—

23. United State of Rajasthan, Jaipur.
24. West Bengal, Calcutta (Shri K. C. Chaudhuri, in his personal capacity).

E. Registrars of Co-operative Societies.—

25. Ajmer-Merwara, Ajmer.
26. Assam, Shillong.
27. Bombay, Poona.

28. Coorg, Mercara.
29. Jammu and Kashmir, Jammu.
30. Madras, Madras.
31. Orissa, Cuttack.
32. Patiala and East Punjab States Union, Patiala.
33. Punjab, Dagshai.
34. West Bengal, Calcutta.

F. Other Government Departments and Offices—

35. Board of Economic Inquiry, Punjab, Ludhiana.
36. Bureau of Economics and Statistics, Bombay.
37. Chief Administrator, Rehabilitation Finance Administration, New Delhi (Shri S. S. Rachhpal, lately Banking Adviser to the Government of Bihar and Managing Director, Bihar Provincial Co-operative Bank Ltd., in his personal capacity).
38. Collector, Anantapur.
39. Collector, Bellary.
40. Collector, Chingleput, Saidapet.
41. Collector, Chittoor.
42. Collector, Coimbatore.
43. Collector, Cuddapah.
44. Collector, Guntur.
45. Collector, Krishna.
46. Collector, Malabar, Calicut.
47. Collector, Mathurai.
48. Collector, Nellore.
49. Collector, Nilgiris, Ootacamund.
50. Collector, North Arcot, Vellore.
51. Collector, Ramnad.
52. Collector, Salem.
53. Collector, South Arcot, Cuddalore.
54. Collector, South Kanara, Mangalore.
55. Collector, Tanjore.
56. Collector, Tiruchirappalli.
57. Collector, Tirunelveli.
58. Commissioner, Central Division, Poona.
59. Commissioner, Northern Division, Ahmedabad.
60. Commissioner, Southern Division, Belgaum.
61. Director of Agriculture, Punjab, Simla.
62. Economic Adviser to the Government of Hyderabad, Finance Department, Hyderabad (Dn.) (Shri S. Kesava Iyengar, in his personal capacity).
63. Economic Adviser to the Government of Punjab, Civil Supplies Department, Simla.

64. Economic and Statistical Adviser to the Government of Punjab, Simla.
65. Inspector of Ml. Cls. & Local Boards, Madras.
66. Registrar of Companies, Bombay.
67. Registrar of Joint Stock Companies, Assam, Shillong.
68. Registrar of Joint Stock Companies, Madras.
69. Revenue Commissioner, Orissa, Cuttack.

II. CO-OPERATIVE INSTITUTIONS

A. *Provincial Co-operative Banks—*

70. Bihar Provincial Co-operative Bank Ltd., Patna.
71. C. P. & Berar Provincial Co-operative Bank Ltd., Nagpur.
72. Orissa Provincial Co-operative Bank Ltd., Cuttack.
73. U. P. Provincial Co-operative Bank Ltd., Lucknow. (Shri M. S. Misra, Honorary Manager, in his personal capacity).
74. West Bengal Provincial Co-operative Bank Ltd., Calcutta.

B. *Central and Urban Co-operative Banks, etc.—*

75. Ahmedabad Central Co-operative Bank Ltd., Ahmedabad. (Shri Dahyabhai A. Patel, Chairman, in his personal capacity).
76. Akola Co-operative Central Bank Ltd., Akola (Shri R. V. Bhagwat, J. P., Director and Honorary Secretary, in his personal capacity).
77. Akola Co-operative Land Mortgage Bank Ltd., Akola (Shri R. B. Gadgil, Director, Vice-President and Legal Adviser, in his personal capacity).
78. Alamuru Co-operative Rural Bank Ltd., Alamuru. (Shri N. Satyanarayana, President, in his personal capacity).
79. Betgeri Urban Co-operative Bank Ltd., Betgeri, Gadag.
80. Bramhapuri Co-operative Central Bank Ltd., Bramhapuri.
81. Co-operative Central Bank Ltd., Bhandara.
82. Drug District Co-operative Central and Land Mortgage Bank Ltd., Drug.
83. Jambusar Peoples' Co-operative Bank Ltd., Jambusar.
84. Khanapur Co-operative Urban Bank Ltd., Khanapur.
85. Krishna Co-operative Central Bank Ltd., Masulipatam.
86. Madura District Central Co-operative Bank Ltd., Mathurai.
87. Mehkar Co-operative Land Mortgage Bank Ltd., Mehkar. (Shri V. K. Soman, President, in his personal capacity).
88. Poona Central Co-operative Bank Ltd., Poona.
89. Poorva Panchmahals Co-operative Banking Union Ltd., Dohad.
90. Raipur Co-operative Central Bank Ltd., Raipur.
91. Saraswat Co-operative Bank Ltd., Bombay.
92. Seoni Co-operative Central & Land Mortgage Bank Ltd., Seoni.
93. Sholapur District Central Co-operative Bank Ltd., Sholapur.
94. Surat District Co-operative Bank Ltd., Surat.

95. Venbakkam Co-operative Credit Society, Singaperumalkoil. (Shri V. Duraswamy Iyengar, President, in his personal capacity).

III. COMMERCIAL BANKS

A. *Scheduled Banks—*

96. Andhra Bank Ltd., Masulipatam.
97. Bankers' Union Ltd., Calcutta.
98. Bank of Baroda Ltd., Baroda.
99. Bank of Bikaner Ltd., Bikaner.
100. Bank of India Ltd., Bombay.
101. Bank of Indore Ltd., Indore.
102. Bank of Jaipur Ltd., Bombay.
103. Bank of Maharashtra Ltd., Poona. (Shri C. V. Joag, Manager, in his personal capacity).
104. Bank of Rajasthan Ltd., Udaipur. (Shri D. L. Gupta, General Manager, in his personal capacity).
105. Bharatha Lakshmi Bank Ltd., Madras. (Jointly with Dr. Pattabhi Sitaramayya, President, Indian National Congress).
106. Calcutta National Bank, Ltd., Calcutta.
107. Canara Banking Corporation Ltd., Udupi.
108. Central Bank of India Ltd., Bombay.
109. Devkaran Nanjee Banking Co. Ltd., Bombay.
110. Hind Bank Ltd., Calcutta. (Shri N. M. Chokshi, General Manager, in his personal capacity).
111. Imperial Bank of India, Central Office, Calcutta.
112. Punjab National Bank Ltd., Delhi. (Shri Yodhraj, Chairman & General Manager, in his personal capacity).
113. South India Bank Ltd., Tinnevely Town.

B. *Non-scheduled Banks, Nidhis and Funds—*

114. Agurchand Manmull Bank Ltd., Madras.
115. Arni Mahaveera Bank Ltd., Tiruvannamalai.
116. Bank of Baghelkhand, Rewa.
117. Bank of Bankura Ltd., Bankura.
118. Bank of Barsi Ltd., Barsi.
119. Bank of Chittoor Ltd., Chittoor.
120. Bank of Karnatak Ltd., Hubli.
121. Bank of Kawardha Ltd., Kawardha.
122. Bank of Mangalore Ltd., Mangalore.
123. Bank of Patiala, Patiala. (Sardar Mohan Singh, Managing Director, in his personal capacity).
124. Bundi State Bank, Bundi.
125. Chettinad Mercantile Bank Ltd., Karaikudi.
126. Coimbatore Anupparpalayam Bank Ltd., Coimbatore.
127. Cosmo Bank Ltd., Trivandrum.
128. G. Raghunathmull Bank Ltd., Hyderabad (Dn.).

129. Ganapathi Sri Kumaresar Nidhi Ltd., Ganapathi.
130. Hindu Bank Karur Ltd., Karur.
131. Interprovincial Banking Corporation Ltd., Calcutta.
132. Jammu & Kashmir Bank Ltd., Jammu. (Shri Pritam Chandr^a Rao, General Manager, in his personal capacity).
133. Janjira Bank Ltd., Janjira—Murud.
134. Karaikudi Banking Corporation Ltd., Karaikudi.
135. Kuniyamuthur Murugapiran Bank Ltd., Coimbatore.
136. Kuniyamuthur Sri Krishnalaya Nidhi Ltd., Coimbatore.
137. Malayalee Bank Ltd., Palghat.
138. Mannargudi Bank Ltd., Mannargudi.
139. Morvi Mercantile Bank Ltd., Morvi.
140. Mysore Union Bank Ltd., Davangere.
141. National Trust Bank Ltd., Calcutta.
142. Negapatam Permanent Fund Ltd., Nagapattinam.
143. New Era Banking Corporation Ltd., Madras.
144. Palakarai Fund Ltd., Palakarai, Tiruchirappalli.
145. Pandyan Bank Ltd., Mathurai (Shri S. N. K. Sundaram, Managing Director, in his personal capacity).
146. Parmarth Bank Ltd., Bareilly.
147. Pie-Money Bank Ltd., Mangalore.
148. Pollachi Town Bank Ltd., Pollachi.
149. Salem Bank Ltd., Salem.
150. South Travancore Bank Ltd., Neyyoor.
151. Tamil Nad Central Bank Ltd., Tiruchirappalli.
152. Tellicherry Bank Ltd., Tellicherry.
153. Tennur Bank Ltd., Tennur, Tiruchirappalli.
154. Town Bank Ltd., Parur.
155. Trichinopoly Ananthapuram Sri Rama Janopakara Nidhi Ltd. Tiruchirappalli.
156. Trichinopoly Jubilee Fund Ltd., Tiruchirappalli.
157. Trivandrum Permanent Fund Ltd., Trivandrum (Shri N. Marthanda Pilai, Secretary, in his personal capacity).
158. Union Bank of Bijapur & Sholapur Ltd., Bijapur.
159. United India Bank Ltd., Tanjore.

IV. CHAMBERS OF COMMERCE, UNIVERSITIES AND OTHER INSTITUTIONS

A. Chambers of Commerce—

160. Assam Chamber of Commerce, Shillong.
161. Bharat Chamber of Commerce, Calcutta.
162. Bengal National Chamber of Commerce, Calcutta.
163. Federation of Indian Chambers of Commerce & Industry, New Delhi.

164. Indian Chamber of Commerce, Calcutta.
165. Indian Chamber of Commerce, Inc., Tuticorn.
166. Indian Merchants' Chamber, Bombay.
167. Jaipur Chamber of Commerce, Jaipur.
168. Karnatak Chamber of Commerce, Hubli.
169. Madura Ramnad Chamber of Commerce, Mathurai.
170. Mahakoshal Chamber of Commerce, Jubbulpore.
171. Maharatta Chamber of Commerce & Industries, Poona.
172. Merchants' Chamber of Commerce, Balangir.
173. Merchants' Chamber of United Provinces, Kanpur.
174. Nagapattinam Chamber of Commerce, Nagapattinam.
175. Upper India Chamber of Commerce, Kanpur.

B. Universities—

176. Registrar, University of Allahabad, Allahabad.
177. Registrar, Lucknow University, Lucknow.
178. Registrar, University of Madras, Madras.

C. Other Institutions.—

179. Ahmedabad District Co-operative Board, Ltd., Ahmedabad.
180. Bombay Co-operative Banks' Association, Bombay (jointly with the Bombay Provincial Co-operative Bank Ltd.).
181. Bombay Provincial Co-operative Institute, Bombay.
182. Bombay Shroffs (Bankers) Association Ltd., Bombay.
183. Federation of Gujarat Mills & Industries, Baroda.
184. Indian Banks' Association, Bombay.
185. Indian Co-operative Union, Bombay.
186. Indian Statistical Institute, Calcutta.
187. Shroffs Association, Sindhi Merchants' Association, Mahajan Association and other Trading Public, New Delhi.
188. South India Joint Stock Banks' Association, Madras.
189. U. P. Co-operative Union Ltd., Lucknow. (Shri Bhola Nath Mehrotra, Member, Executive Committee, in his personal capacity).

V. INDIVIDUALS

190. Shri P. P. Ananthanarayana Iyer, Alatur.
191. Shri G. D. Banerjee, Currency Officer (Offg.) Reserve Bank of India, Issue Department, Bombay.
192. Shri S. K. Basu, Reader in Economics, Calcutta University, Calcutta.
193. Shri L. R. Bhandari, Manager, Reserve Bank of India, Bombay.
194. Shri K. P. Bhatnagar, Convener, Board of Studies in Economics, Agra University, Agra.

195. Rev. P. Carty, S. J., Professor of Economics, St. Joseph's College, Tiruchirappalli.
196. Shri A. Das, Pleader, Puri.
197. Shri P. K. Das Gupta, Deputy Chief Officer (Offg.), Reserve Bank of India, Department of Banking Operations, Madras.
198. Shri S. C. Dash, Lecturer in Economics, Government College, Jeypore.
199. Shri M. K. G. Deshmukh, c/o Reserve Bank of India, Kanpur.
200. Shri N. H. Dotiwala, Assistant Currency Officer (Offg.), Reserve Bank of India, Issue Department, Bombay.
201. Shri Surendra Mohan Ghose, Member, Constituent Assembly, New Delhi.
202. Shri M. C. Grover, Manager, Punjab National Bank Ltd., Jubbulpore.
203. Shri R. R. Iyer, Member, Local Board (Southern Area), Reserve Bank of India, Madras.
204. Shri S. H. Jain, Porbandar.
205. Prof. D. G. Karve, Bombay.
206. Shri S. V. Krishnamoorthy Rao, Member, Constituent Assembly, New Delhi.
207. Shri T. N. Krishnamurthi, Currency Officer (Offg.), Reserve Bank of India, Issue Department, Madras.
208. Shri B. Misra, Lecturer in Economics, Government College, Sambalpur.
209. Shri K. C. Mitra, Director, West Bengal Provincial Co-operative Bank Ltd., and Chairman, Birbhum Central Co-operative Bank Ltd., and Birbhum Co-operative Land Mortgage Bank Ltd., Suri.
210. Shri S. C. Mitra, Currency Officer, Reserve Bank of India, Issue Department, Calcutta.
211. Shri H. R. Moharay, Managing Editor, Samyukta Karnatak, Hubli.
212. Shri L. K. Marayanan, Manager, United Commercial Bank Ltd., Cuttack.
213. Professor of Agricultural Economics, College of Agriculture, Poona.
214. Shri V. R. M. Ramalingam, Rural Welfare Worker, Paramakudi.
215. Shri W. V. V. B. Ramalingam (Director, Orissa Provincial Co-operative Bank Ltd.), Berhampore.
216. Shri T. K. Ramasubramaniam, Manager (Offg.), Reserve Bank of India, Madras.
217. Shri P. D. Sardana (Retired Staff Assistant, Imperial Bank of India), Moradabad.
218. Shri Ujagar Singh Sekhon, Assistant Collector of Central Excise Calcutta.
219. Shri U. N. Sen Gupta, Retired Assistant Registrar of Co-operative Societies, Calcutta.
220. Shri R. P. Singh, Department of Commerce, Maharaja's College, Jaipur.

- 221. Shri A. B. N. Sinha, Bihar Co-operative Federation, Patna.
- 222. Shri B. P. Sinha, Sevak Sarvodaya Samaj, Gorakhpur.
- 223. Shri C. P. Tandon, c/o Bareilly Corporation Bank Ltd., Budaun.
- 224. Shri M. L. Tannan, Bombay.
- 225. Shri V. P. Varde, Member, Local Board (Western Area), Reserve Bank of India, Bombay.
- 226. Shri M. Visvanathan, Assistant Professor of Economics, Pachaiyappa's College, Madras.
- 227. Shri P. A. Viswanathan, Agent, Indian Overseas Bank Ltd., Coimbatore.



APPENDIX III

TABLE I

Growth of commercial banks and their offices in India during the period 1928-49

Serial No.	Class of Banks	1928	1938	1939	1945	1946	1947	1948 (31-12-48)	1949 (30-9-49)
1	2	3	4	5	6	7	8	9	10
1. Imperial Bank of India									
Number of offices
2. Exchange Banks									
Number of Banks
Number of offices
3. Other Scheduled Banks									
Number of Banks
Number of offices
4. Non-Scheduled Banks									
Number of Banks
Number of offices
5. Indian Joint Stock Banks									
Number of Banks
Number of offices
6. GRAND TOTAL									
Number of Banks
Number of offices

Source : For Column (3).—Report of the Central Banking Enquiry Committee.

For Columns (4) to (8).—Statistical Tables relating to Banks in India 1938-47.

For Columns (9) & (10).—Figures relating to scheduled banks have been taken from the Journal of the Indian Institute of Bankers, January 1950 those relating to non-scheduled banks are based on the data available with the Reserve Bank.

Explanatory Notes:—

(i) *in column (4) : The figure excludes non-scheduled banks having paid-up capital and reserves below Rs. 1 lakh.

(ii) Figures of non-scheduled banks in columns (5), (6), (7) and (8) relate only to those having paid-up capital and reserves of Rs. 50,000 and above while figures in column (10) are in respect of all non-scheduled banks, according to data available with the Reserve Bank.

(iii) Figures for years before 1948 relate to undivided India.

(iv) N.A.—Not available.

APPENDIX III—contd.

TABLE 2

Growth of deposit of commercial banks in India during the period 1928-49

(In crores of rupees)

Serial No.	Class of Banks	1928	1938	1945	1946	1947	1948	1950
1	2	3	4	5	6	7	8	9
1.	Imperial Bank of India	71	82	259	272	287	225	200
2.	Exchange Banks	71	67	184	181	180	154	158
3.	Other Scheduled Banks . . . . .	..	92	543	624	651	555	475
4.	Non-Scheduled Banks . . . . .	..	15	107	106	91	45	40
5.	Indian Joint Stock Banks	66	..	..	..	..	..	..
GRAND TOTAL		208	256	1093	1183	1209	979	873

Source : For Column (3).—Report of the Central Banking Enquiry Committee.

For Columns (4) to (7).—Statistical Tables relating to Banks in India for the year 1947.

For Columns (8) & (9).—Data available with the Reserve Bank.

Explanatory Notes :

(i) Figures of non-scheduled banks for 1938 exclude those of banks with paid-up capital and reserves of less than Re. 1 lakh. Figures for 1945 to 1947 exclude those of banks with paid-up capital and reserves of less than Rs. 50,000.

(ii) Figures for years before 1948 relate to undivided India.

(iii) Figures of deposits of non-scheduled banks for 1948 and 1949 relate to 419 and 358 banks respectively.

APPENDIX III—contd.

TABLE 3

Statement showing the distribution of banking offices in the Provinces and States of India.

Serial No.	Name of Province or State	Area in square miles	Population (000 omitted)	No. of towns :	No. of towns served by Imperial Bank of Commerce	No. of offices of the Bank of India	No. of offices of other scheduled banks including Exchange Banks	No. of non-scheduled banks	No. of offices of commercial banks	Total No. of offices	Average area served by an office of a commercial bank (sq. miles omitted)	No. of offices of Provincial and Central Co-operative Banks	Total number of banking offices			
1	2	3	4	5	6	7	8	9	10	11	12	13	14			
PROVINCES																
(1)	Assam,	.	.	.	68,138	9,698	52	47	2	59	123	184	370	53	19	203
(2)	Bihar	.	.	.	70,368	[37,741	116	77	35	121	125	281	250	134	47	328
(3)	Bombay	.	.	.	1,10,130	[30,970	325	188	38	396	196	630	175	49	167	79
(4)	Madhya Pradesh	.	.	.	1,30,323	20,591	134	56	33	124	24	181	720	114	75	25
(5)	Madras	.	.	.	1,27,768	53,384	550	332	83	453	588	1124	114	47	48	1172
(6)	Orissa	.	.	.	59,869	13,874	31	11	6	9	16	31	1931	448	21	52
(7)	Punjab	.	.	.	37,428	14,054	125	85	38	188	54	280	133	50	78	358
(8)	Uttar Pradesh	.	.	.	1,12,523	59,941	463	168	79	369	112	560	201	107	72	632
(9)	West Bengal	.	.	.	28,155	21,372	168	121	19	234	467	720	39	30	41	76
TOTAL		.	.	.	7,44,702	2,61,625	1954	1085	333	1953	1705	3991	187	65	568	4559

APPENDIX III—*contd.*

TABLE 3—*contd.*

1	2	3	4	5	6	7	8	9	10	11	12	13	14
(10)	Centrally Administered Areas.	58,745	8,391	71	57	9	104	54	167	352	50	24	191
STATES													
(11)	Hyderabad . . .	82,313	17,347	26	26	4	42	18	64	1286	271	50	114
(12)	Madhya Bharat . . .	46,767	7,591	22	22	12	94	11	57	820	133	21	78
(13)	Mysore . . .	29,458	7,850	36	36	2	62	25	89	331	88	1	90
(14)	P.E.P.S.U. . . .	10,089	3,790	47	35	6	4	30	40	252	95	14	54
(15)	Rajasthan . . .	1,28,424	13,891	80	80	4	109	29	142	904	98	15	157
(16)	Saurashtra . . .	25,345	4,298	66	19	2	41	4	47	539	91	..	47
(17)	Travancore and Cochin . .	9,155	8,026	146	146	5	116	382	503	18	16	5	508
TOTAL . . .		3,31,561	62,793	423	364	35	408	499	942	352	67	106	1048
GRAND TOTAL . . .		1,135,008	332,809	2448	1506	377	2485	2258	5100	222	65	698	5798

(1) Source for columns (3) and (4) :—Census of India Paper No. 2, 1949.

(2) Figures of offices of commercial and co-operative banks relate to December 1949.

APPENDIX III—contd.

TABLE 4

Regional distribution of towns served and not served by commercial banks.

S.No.	Number of towns not served by commercial banks with a population					Total number of towns		Number of towns served by commercial banks with a population					Total number of towns served	
	Between 5000 & 10000					not served		Between 10000 & 20000					Between 20000 & 50000	
	Below 5000	Between 5000 & 10000	Between 10000 & 20000	Between 20000 & 50000	Over 50000	Below 5000	Between 5000 & 10000	Between 10000 & 20000	Between 20000 & 50000	Over 50000	Below 5000	Between 5000 & 10000	Between 10000 & 20000	Between 20000 & 50000
1	2	3	4	5	6	7	8	9	10	11	12	13	14	
PROVINCES														
(1) Assam	4	1	..	..	..	5	7	5	7	2	..	26	47	
(2) Bihar	3	24	11	1	..	39	1	9	19	12	11	25	77	
(3) Bombay	34	71	32	..	..	137	7	30	43	24	15	69	188	
(4) Madhya Pradesh	8	53	16	1	..	78	..	6	20	16	7	8	56	
(5) Madras	16	139	60	3	..	218	1	47	66	56	27	135	332	
(6) Orissa	1	14	4	1	..	20	..	2	4	2	1	2	11	
(7) Punjab	12	23	4	1	..	40	3	18	14	17	5	28	85	
(8) Uttar Pradesh	129	124	36	5	1	295	14	25	36	32	23	38	168	
(9) West Bengal	6	14	6	11	..	37	1	7	21	17	10	65	121	
(10) Centrally Administered Areas	Not available					2	2	2	2	2	6	43	57	
(11) States	Not available					2	9	12	14	23	304	364		
GRAND TOTAL	213	463	169	23	1	869	38	160	244	193	128	743	1506	

NOTE.—Figures given in this table are based on the available data with the Reserve Bank.

APPENDIX III—*contd.*

TABLE 6

Progress of rural post office savings banks

S. No.	Circle	Total No. of villages with a population of 2000 and over	No. of post offices including sub and branch offices in rural areas doing savings bank business	No. of accounts current in these post offices			Increase in number of accounts	Balances of accounts in these post offices (in lakhs of rupees)			Increase in balances (in lakhs of rupees)	Average balance per account in these post offices		
				31-3-43	31-3-49	31-3-43	31-3-49	31-3-43	31-3-49	31-3-43	31-3-49	31-3-43	31-3-49	31-3-39
(1)	Assam	203	169	198	21504	32963	11399	45	147	102	147	209	446	
(2)	Bihar	1441	312	468	90856	136190	45334	730	1191	461	1191	803	875	
(3)	Bombay	1764	1280	1438	46740	82060	35320	91	325	234	325	195	396	
(4)	Delhi	26	5	5	52673	55084	2411	29	324	295	324	55	588	
(5)	Madhya Pradesh	1051	841	771	66620	102078	35458	102	212	110	212	153	208	
(6)	Madras	7086	1241	1801	94725	193489	98764	90	290	200	290	95	150	
(7)	Orissa	151	149	175	9962	16530	6568	20	31	11	31	201	187	
(8)	Punjab	1109	218	244	82836	132977	50141	204	2514	2310	2514	246	1891	
(9)	Uttar Pradesh	2449	561	602	183310	266475	83165	202	583	381	583	110	219	
(10)	West Bengal	898	736	699	72176	178588	106412	258	697	439	697	358	390	
TOTAL		16178	5512	6401	721462	1196434	474972	1771	6314	4543	6314	245	528	

Source :—Figures supplied by the Director General, Posts & Telegraphs.

APPENDIX III—concl'd.

TABLE 7

Post office savings bank transactions since 1939

Year ending 31st March	1						Average balance per depositor
	No. of depositors at the end of the year (In thousands)	Deposits including interest (In lakhs of rupees)	Withdrawals (In lakhs of rupees)	Balance at the end of the year (In lakhs of rupees)			
	2	3	4	5	6		
1939	193.0	
1940	170.9	
1941	209.2	
1942	189.0	
1943	203.7	
1944	231.4	
1945	259.2	
1946	328.1	
1947	358.4	
1-4-47 to 14-8-47	367.6	
15-8-47 to 31-3-48	406.3	

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APPENDIX IV

Provincewise Statement of Non-Bank Treasuries and Sub-Treasuries having a turnover on Government account of Rs. 64 lakhs and above.

(Reference Paragraph 57)

(Figures in columns 3 to 6 are in thousands of rupees)

Serial No.	Name of Treasury or Sub-treasury	Average chest balance	Normal treasury balance	Small coin depot balance as on 31st October 1949	Government turnover during 1948-49	Population according to 1941 census	Remarks
1	2	3	4	5	6	7	8
ASSAM							
1.	Silchar (D.T.)	67.54	31	1.10	5,98,30	16,601	
2.	Karimganj .	41.33	28	..	1,69,34	7,813	
3.	Tezpur (D.T.)	1,11,10	1,24	..	5,66,77	11,879	
4.	Dhubri (D.T.)	90.52	72	..	6,04,87	12,699	
5.	Goalpara .	57.15	33	..	98,33	7,793	
6.	North Lakhimpur*	8.63	1,00	..	1,06,35†	2,790	†Estimated.
7.	Sadiya .	11.05	38	..	69,10†	2,056	
8.	Gauhati (D.T.)	2,21,36	74	4.10	18,70,16	29,598	
9.	Barpeta .	28.63	26	..	79,75	18,466	
10.	Jorhat (D.T.)	91.40	92	..	8,98,43	11,664	

BOMBAY

27. Dhanduka	5,86	3	..	86,55	11,150
28. Virangam	7,26	8	..	1,24,15	27,834
29. Belapur* (Shrirampur)	13,93	9	..	1,39,99	6,303
30. Kopergaon*	4,95	3	..	1,00,64	8,753
31. Okhamandal (Dwarka) . . . . .	..	..	..	80,45	N.A.
32. Baroda (D.T.)	85,32	10	31	3,92,55	1,52,326
33. Chhota Udepur . . . . .	..	..	..	76,08†	8,114 †Estimated.
34. Chikodi	26,74	7	..	70,98	10,070
35. Palanpur (D.T.)	30	12	..	4,84,78†	N.A.
36. Sihori (Konkrej) . . . . .	..	..	..	83,02†	N.A.
37. Bijapur (D.T.)	63,22	13	..	2,96,46	48,968
38. Bagalkot	22,24	24	..	1,15,33	24,521
39. Ankleshwar	3,19	7	..	66,19	14,187
40. Dohad*	1,1,43	26	..	1,22,34	12,666
41. Rajpipla	6,83	12	..	1,05,19	15,855
42. Dharwar (D.T.)	37,68	60	..	1,92,51	47,992
43. Nandurbar	9,57	12	..	1,46,45	22,139
44. Shahada	4,43	10	..	74,71	9,092
45. Taloda	4,25	5	..	72,11	10,973
46. Amalner*	13,86	7	..	1,41,76	34,694

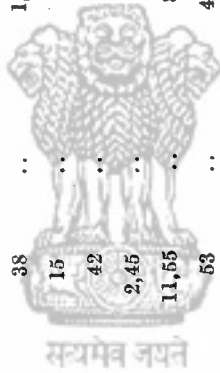
APPENDIX IV—contd.

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1	2	3	4	5	6	7	8
	BOMBAY—contd.						
47.	Bhusaval	9,29	6	..	2,23,53	36,352	
48.	Chalisgaon*	13,41	4	..	1,34,32	22,122	
49.	Chopda	7,33	2	..	75,00	31,544	
50.	Pachora*	8,66	3	..	2,17,11	10,474	
51.	Anand	7,83	5	..	2,07,38	17,154	
52.	Cabray . . . . .	..	6	..	3,61,43	34,941	
53.	Pethad . . . . .	..	3	..	65,22†	N.A.	†Estimated.
54.	Karwar (D.T.)	40,94	80	..	4,22,79	15,812	
55.	Haliyal	53,87	28	..	92,68	6,448	
56.	Kunta	20,62	22	..	69,89	12,466	
57.	Sirsi	11,83	27	..	1,08,07	10,451	
58.	Alibag (D.T.)	9,56	33	..	3,12,00	6,526	
59.	Pen	11,17	41	..	87,98	7,317	
60.	Panvel	15,96	14	..	97,59	11,984	
61.	Mahad	39,37	41	..	1,14,74	8,150	
62.	Kalol . . . . .	..	..	..	94,52	N.A.	
63.	Radhanpur . . . . .	..	..	..	69,24	11,959	
64.	Baglam	5,12	1	..	67,85	6,652	

65. Malegaon	11,13	3	..	1,08,49	39,924
66. Yeola	4,74	1	..	76,04	17,817
67. Bhimthadi	3,68	5	..	1,09,69	16,366
68. Dhond	6,10	2	..	70,47	12,828
69. Ratnagiri (D.T.)	49,92	58	..	6,72,42	17,904
70. Chiplun	27,96	56	..	1,45,40	14,236
71. Dapoli	5,37	6	..	72,03	15,528
72. Devgad	5,94	5	..	78,53	6,757
73. Malvan	10,62	38	..	1,26,15	25,677
74. Rajapur	10,36	15	..	69,90	7,489
75. Vengurla	11,67	42	..	81,00	26,663
76. Sawantwadi	2,46	2,45	..	64,53	10,024
77. Himatnagar (D.T.) . . . . .	..	11,55	..	87,30†	6,496
78. Satara (D.T.)	74,88	53	..	4,05,07	36,405
79. Karad	25,53	5	..	1,60,88	17,996
80. Khanapur	6,68	5	..	67,98†	7,399
81. Koregaon	16,16	3	..	68,32	5,717
82. Miraj . . . . .	..	..	..	85,08†	N.A.
83. Tasgaon	4,49	6	..	85,32†	11,587
84. Valva	9,05	4	..	88,68†	5,202
85. Wai	10,94	4	..	71,40	14,893

†Estimated.



APPENDIX IV—contd.

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1	2	3	4	5	6	7	8
BOMBAY—concl'd.							
86.	Phalten	4,70	..	1,11,88	13,523	
87.	Barsi	9,11	7	..	86,86	36,860	
88.	Karmala	4,78	2	..	1,20,69	7,310	
89.	Pandharpur	14,92	28	..	84,30	33,329	
90.	Bulsar	7,20	4	..	1,14,21	23,251	
91.	Navsari . . . . .	..	1	..	1,24,02†	N.A.	† Estimated.
92.	Bassein	17,33	9	..	86,65	13,969	
93.	Dahanu*	19,37	8	..	1,03,81	6,285	
94.	Kalyan	19,16	13	..	2,89,93	31,356	
95.	Palghar	28,70	17	..	70,04	4,101	
96.	Devgad Baria . . . . .	..	14,26	..	66,41†	8,281	
97.	Kolhapur (D.T.)	33,33	31	..	5,28,00†	93,032	
98.	Sangli (D.T.) . . . . .	..	28	..	2,67,06†	34,781	
MADHYA PRADESH							
99.	Murtizapur	5,94	19	..	78,21	12,636	
100.	Amraoti**	10,59	13	..	64,29	74,309	
101.	Ellichpur*	7,18	13	..	84,26	31,475	
102.	Balaghat (D.T.)	38,62	98	..	1,15,44	11,482	

103. Betul (D.T.)	.	.	.	45,01	25	..	1,41,20	11,841
104. Bhandara (D.T.)	.	.	.	62,06	67	..	1,45,25	19,708
105. Gondia*	.	.	.	15,49	26	..	3,35,12	20,320
106. Malkapur*	.	.	.	18,52	12	..	1,60,29	20,598
107. Chhindwara (D.T.)*	.	.	.	53,36	37	..	1,97,08	21,916
108. Seoni*	.	.	.	2,36	39	..	1,12,59	20,570
109. Drug (D.T.)	.	.	.	46,20	51	..	1,34,63	16,766
110. Hoshangabad (D.T.)	.	.	.	87,49	38	..	71,06	13,290
111. Harda*	.	.	.	20,06	39	..	1,20,00	15,120
112. Mandla (D.T.)	.	.	.	33,81	36	..	70,31	12,209
113. Damoh*	.	.	.	9,66	25	..	71,81	26,795
114. Pused*	.	.	.	6,69	8	..	76,67	11,372
115. Wun*	.	.	.	3,61	9	..	74,34	12,235
116. Jagsdalpur (D.T.)	.	.	.	..	..	..	90,52	11,304
117. Baikunthpur	.	.	.	..	..	..	1,13,00	N.A.
MADRAS								
118. Anakapalle*	.	.	.	12,62	2	..	95,62	29,249
119. Chicacole	.	.	.	2,81	2	..	77,76	22,249
120. Cocanada**	.	.	.	3,41	2	..	1,01,75	75,140
121. Arsalapuram*	.	.	.	4,43	3	..	1,32,27	14,527
19. 'ddapuram	.	.	.	2,35	82,69	20,835

APPENDIX IV—*contd.*

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1	2	3	4	5	6	7
MADRAS— <i>contd.</i>						
123.	Ramachandrapuram*	4,03	2	..	1,23,28	9,380
124.	Razole	3,31	2	..	87,35	5,896
125.	Ellore**	3,44	1	..	66,22	64,911
126.	Narasapur*	4,32	1	..	93,58	16,044
127.	Tadepalligudem*	2,74	1	..	75,78	9,396
128.	Tanuku	4,21	1	..	80,31	13,562
129.	Bandar	3,68	..	..	70,90	N.A.
130.	Guntur**	1,82	1	..	64,91	83,599
131.	Bapatla*	5,02	0.2	..	1,33,83	16,679
132.	Tenali*	4,02	4	..	2,68,69	40,639
133.	Hospet*	6,29	2	..	38,48	26,023
134.	Proddatur*	16,04	1	..	79,45	26,961
135.	Saidapet (D.T.)	19,06	9	..	7,57,60	41,347
136.	Saidapet	5,39	9	..	72,30	41,347
137.	Chingleput	3,99	5	..	85,54	17,829
138.	Conjeevaram	1,61	5	..	75,82	74,635
139.	Tiruppattur*	8,10	2	..	98,57	23,008

140.	Tiruvannamalai*	.	.	.	7,39	2	..	99,78	33,575
141.	Wājahpet .	.	.	.	6,06	5	..	76,34	11,048
142.	Chandragiri	.	.	.	4,84	2	..	71,81	N.A.
143.	Tiruttani .	.	.	.	4,92	1	..	70,80	7,197
144.	Vayalpad .	.	.	.	3,91	1	..	74,65	N.A.
145.	Chidambaram	.	.	.	5,32	10	..	1,54,32	26,212
146.	Tindivanam	.	.	.	6,60	6	..	98,76	18,177
147.	Villupuram	.	.	.	3,63	7	..	1,11,69	23,829
148.	Vridhachalam	.	.	.	4,16	4	..	69,24	8,876
149.	Namakkal*	.	.	.	6,91	6	..	82,83	12,515
150.	Trichinopoly**	.	.	.	7,65	2	..	1,16,83	1,59,566
151.	Karur*	.	.	.	8,59	1	..	99,12	27,575
152.	Pudukottai .	.	.	.	14,35	1,66	..	3,87,25	34,188
153.	Mayavaram .	.	.	.	8,09	2	..	95,03	32,670
154.	Pattukottai*	.	.	.	3,67	2	..	77,10	12,709
155.	Tirutturaipundi	.	.	.	5,06	2	..	1,65,46	8,071
156.	Dindigul*	.	.	.	3,76	1	..	1,61,78	56,275
157.	Palni	.	.	.	4,13	2	..	68,86	24,706
158.	Paramagudi	.	.	.	2,86	2	..	65,04	17,758
159.	Ramnad	.	.	.	2,90	5	..	1,88,97	18,152
160.	Sattur	.	.	.	17,33	3	..	1,38,69	9,831

APPENDIX IV—contd.

1	2	3	4	5	6	7	8
	MADRAS—contd.						
161.	Sivaganga	3,54	4	..	79,17	12,108	
162.	Srivilliputtur	7,21	5	..	77,98	34,642	
163.	Tirupattur*	4,91	3	..	99,24	12,911	
164.	Virudunagar	8,49	2	..	79,00	34,559	
165.	Tirunelveli*	3,44	2	..	1,10,48	60,676	
166.	Ambasamudram	3,21	7	..	1,07,19	17,540	
167.	Koipatti	7,15	2	..	1,46,18	15,114	
168.	Nanguneri	2,01	3	..	1,18,61	9,024	
169.	Srivaikuntam	4,78	8	..	1,26,94	9,524	
170.	Tenkasi	2,36	2	..	86,95	22,862	
171.	Tiruchendur	1,81	2	..	91,05	11,110	
172.	Dharapuram*	10,34	3	..	91,71	20,660	
173.	Gobichettipalayam	12,18	0.2	..	91,07	16,140	
174.	Udamalpet	13,62	0.2	..	91,75	17,791	
175.	Coonoor	11,95	20	..	1,38,87	18,783	
176.	Badagara	11,36	2	..	1,06,16	17,924	
177.	Chowghat	5,45	1	..	₹1,03,11	N.A.	
178.	Manjeri	6,46	3	..	96,93	5,547	

179. Palghat	.	.	.	8.56	4	..	2,91,79	55,160
180. Perintalmanna	.	.	.	6,13	3	..	1,05,89	N. A.
181. Ponnani	.	.	.	5,90	2	..	87,41	17,838
182. Udipi	.	.	.	3,10	4	..	72,16	18,043

ORISSA

183. Balasore (D.T.)*	.	.	.	98,38	58	..	6,19,95	19,405
184. Jajpur	.	.	.	1,51	6	..	1,64,05	11,188
185. Kendrapara	.	.	.	1,65	7	..	71,48	13,880
186. Chatrapur (D. T.)	.	.	.	10,53	22	..	93,83	16,227
187. Koraput (D. T.)	.	.	.	19,60	30	..	2,79,29	N. A.
188. Jeypore	.	.	.	16,00	19	..	83,13	12,504
189. Puri (D. T.)*	.	.	.	170,80	44	..	13,27,85	41,055
190. Khurda	.	.	.	16,15	13	..	71,37	N. A.
191. Sambalpur (D. T.)	.	.	.	176,05	82	..	8,62,62	17,079
192. Keonjhar (D. T.)	.	.	.	18,12	35	..	78,56	18,904
193. Gangpur (D. T.)	.	.	.	15,03	49	..	95,45	N. A.
194. Balangir (D. T.)	.	.	.	13,47	75	..	73,23	11,105
195. Baripada	.	.	.	..	..	..	2,59,02	18,281
196. Rairangpur	.	.	.	..	..	..	95,50	N. A.

APPENDIX IV—*contd.*

1	2	3	4	5	6	7	8
PUNJAB							
197.	Jagadhri	26,29	6	..	1,26,26	16,422	
198.	Kasauli	8,52	13	..	72,30	2,749	
199.	Patti . . . . .	..	..	..	91,45	N. A.	
200.	Dharmasala (D. T.)	54,88	46	..	1,21,60	9,656	
201.	Palampur	10,60	24	..	1,57,97	N. A.	
202.	Gurdaspur (D. T.)	20,29	52	..	13,19,72	16,641	
203.	Batala	20,92	22	..	1,72,39	44,458	
204.	Pathankot	12,60	16	..	3,93,74	12,354	
205.	Gurgaon (D. T.)	73,10	54	..	1,75,33	N. A.	
206.	Rewari	31,90	84	..	66,08	30,673	
207.	Bhiwani	3,32	12	..	1,13,79	43,921	
208.	Hansi*	4,65	21	..	74,59	22,590	
209.	Una	10,67	9	..	2,77,10	5,394	
210.	Karnal (D. T.)	88,67	81	..	5,11,42	37,444	
211.	Panipat	26,36	61	..	1,47,65	37,837	
212.	Thanesar	10,89	38	..	1,32,07	6,574	

UTTAR PRADESH

213. Jagraon	5,43	10	..	1,05,79	26,704
214. Sonapat	5,73	50	..	78,30	17,781
UTTAR PRADESH					
215. Ballia* (D.T.)	56,38	34	..	1,35,51	23,520
216. Banda (D.T.)	40,52	33	..	2,04,79	27,070
217. Bara Banki (D.T.)	57,77	49	..	99,247	18,207
218. Basti* (D.T.)	1,46,59	68	..	2,53,44	23,893
219. Bijnor (D.T.)	56,59	78	..	3,00,23	27,900
220. Dhampur	1,53	2	..	74,20	12,046
221. Budaun(D.T.)	36,89	86	..	1,81,45	52,077
222. Kaغانj*	5,52	4	..	66,59	28,465
223. Fatepur(D.T.)	11,56	20	..	1,24,21	27,436
224. Ghazipur(D.T.)	20,80	53	..	2,37,55	31,326
225. Deoria	4,06	7	..	1,14,32	15,198
226. Hardoi (D.T.)	29,21	25	..	1,19,06	24,252
227. Jaunpur (D.T.)	22,03	92	..	2,06,66	44,833
228. Kheri* (D.T.)	32,23	22	..	2,38,17	21,235
229. Mainpuri (D.T.)	13,12	15	..	80,32	19,261
230. Ghaziabad*	3,00	12	..	1,16,50	23,834
231. Mirzapur (D.T.)	1,00,76	30	..	3,04,40	17,944
232. Haldwani	4,18	5	..	1,17,76	17,976

†Represents receipts only.

APPENDIX IV—contd.

1	2	3	4	5	6	7	8
UTTAR PRADESH—contd.							
233.	Garhwal (D.T.)	.	.	.	30	1,19,97	N.A.
234.	Lansdowne	.	.	.	10	1,93,05	6,174
235.	Pilibhit* (D.T.)	.	.	.	33	2,32,27	46,709
236.	Rae Bareilly (D.T.)	.	.	.	48	1,75,11	20,945
237.	Raunthi (D.T.)	.	.	.	52	1,89,47	4,894
238.	Almorah	.	.	.	16	1,90,78	10,229
239.	Pithoragarh	.	.	.	4	72,10	1,519
240.	Shahjahanpur (D.T.)	.	.	.	35	3,63,90	1,05,817
241.	Sultanpur (D.T.)	.	.	.	53	1,35,10	13,121
242.	Unnao (D.T.)	.	.	.	28	1,43,46	20,107
WEST BENGAL							
243.	Barrackpore	.	.	.	1,63	5,02,78	21,773
244.	Basirhat	.	.	.	4,76	2,19,98	26,348
245.	Diamond Harbour	.	.	.	1,12	1,44,37	N.A.
246.	Bankura* (D.T.)	.	.	.	1,20	8,58,94	46,617
247.	Bishnupur	.	.	.	43	98,70	24,969
248.	Birbhum (D.T.)	.	.	.	4,29	12,59,37	N.A.

249. Rampurhat	16,19	47	..	80,06	12,225
250. Talna . . . . .	..	..	..	90,74	12,562
251. Katwa	2,33	77	..	1,31,94	11,282
252. Kalimpong	4,12	9	..	85,38	11,958
253. Kurseong	11,84	9	..	97,51	8,495
254. Siliguri	17,03	57	..	96,57	10,487
255. Hooghly (D.T.)	13,51	62	..	4,55,89	49,081
256. Serampur	33,14	18	..	2,96,99	55,339
257. Ailpur Duars	9,00	3	..	95,20	N.A.
258. Malda (D.T.)	38,50	25	..	2,30,84	3,845
259. Contai	5,93	61	..	2,45,86	6,746
260. Jhargram	4,80	8	..	1,43,03	N.A.
261. Tamruk	12,47	40	..	84,98	12,079
262. Berhampur*	32,30	67	..	4,24,06	41,558
263. Navadwip (Krishnagar)	154,96	1,52	..	3,38,39	30,583
264. Ranaghat	11,83	26	..	83,93	61,488
265. Balurghat (D.T.)	56,30	1,05	..	7,43,63	N.A.
AJMER					
266. Beawar	1,68,41	20	..	1,30,73	1,50,882
BHOPAL					
267. Bhopal (D.T.)*	1,31,96	..	1.94	2,28,02	75,228

APPENDIX IV—*concl.*

1	2	3	4	5	6	7	8
	COORG						
268.	Mercara (D.T.)	24,81	53	..	1,56,29	1,68,726	
	HIMACHAL PRADESH						
269.	Mandi (D.T.) . . . . .	..	..	..	89,27	2,32,593	
	KUTCH						
270.	Bhuj (D.T.)	2,84,67	25	4,54	11,80,31	85,797	
	MANIPUR						
271.	Imphal (D.T.)				4,15,77	N.A.	
	TRIPURA						
272.	Agartala (D.T.)				98,68†	1,49,404	†Estimated.
	VINDHYA PRADESH						
273.	Chhatarpur (D.T.) . . . . .		..	..	81,48†	2,26,729	
	ANDAMAN ISLANDS						
274.	Port Blair	21,20	..	..	1,20,09	N.A.	

N. B.—N.A. Not available.

D.T.: District Treasury.

*Indicates that at this place there is an office of the Imperial Bank of India, but the Bank is not managing Government cash work.
 **Indicates that at this place the Imperial Bank of India is managing the Government cash work at District treasury but not at the Sub-treasury located at the same centre.

Column 3.—The average chest balance has been worked out for the six months ended April 1949.

Column 4. The normal treasury balance has been calculated on the basis of the actuals for the two years ended the 30th June 1949